THEORY AND PRACTICE OF DEVELOPMENT BANKING

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THEORY AND PRACTICE OF DEVELOPMENT BANKING

A STUDY IN THE ASIAN CONTEXT

by

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To the cherished Memory of
my beloved daughter,

PADMA

Preface

THE present work is an attempt to make a modest contribution to the literature on 'Development Banking' which is admittedly meagre and inadequate. Before the publications of the two books by Mr. William Diamond and Mrs. Shirley Boskey, there was hardly any printed material devoted to a systematic treatment of the principles, problems and practices of development banks. Long before these books were published, however, the present writer in his own humble way had made a special study of the institutional machinery for the supply of industrial finance in various countries in his book *Industrial Finance in India* brought out as far back as in 1939. The principles and practices of industrial mortgage banking which was a post-war innovation in this sphere were particularly studied in this connection. He had pursued his study of the prototypes of modern development banks in another publication in 1947.

The scope of the present book has been restricted to development banking with particular reference to the industrial field. Structurally it is divided into two parts and an Appendix. The first part attempts to build up and formulate the theory of development banking from an analysis of the charters and actual practices of development banks as operating in the underdeveloped countries of Asia, Africa and Latin America. The backdrop here is the operation of a development bank in a highly advanced country, the Industrial Development Bank of Canada, and the centre of the stage is occupied by the array of development banks functioning in Asian, particularly S.E. Asian, countries. The question of sponsoring a Super-development Bank for the Asian region which has aroused a great deal of international interest in the present times lends particular significance to this aspect of the study. The second part makes a critical appraisal from a theoretical as well as a practical plane of the working of development banks in India in the context of the proposed functions and powers of the newly established Industrial Development Bank of India, and concludes that the transformation of one of the existing

institutions, preferably the IFCI, into a full fledged development bank would have been a wiser step than the proliferation of such institutions by the outright creation of yet another new Bank. The Appendix consists of a number of sample charters of development banks, processed and analysed with respect to their capital structure, objectives, functions and powers, operational policies, scope of activities, public accountability, etc. It would serve as a kind of reference material supplementing the textual analysis, illustrating in the process how the theory of development banking has been evolving from the constitutional framework of the banks themselves.

The text of the book is based upon the statutes, charters and Articles and Memoranda of Asscciation of the various development banks, their annual reports and publications, and the papers presented by the participating Asian Banks before the Regional Conferences recently held in Bombay and Teheran, and the Reports of the World Bank and its affiliate the I.F.C. The author has also had the benefit of considerable source material and valuable data kindly provided to him by the authorities of the development banks themselves. In this connection he has to express his grateful thanks particularly to the authorities of the Industrial Development Bank of Canada, the development banks of Burma, Ceylon, Pakistan, Nepal, Malaysia, Iran, Japan and the IFC, ICIC, NIDC and IDB of India. His indebtedness to the two pioneer commentators in this field, Mr. William Diamond and Mrs. Shirley Boskey, is gratefully acknowledged. His thanks are also due to Mrs. Sadhona Sen Gupta, a research scholar, for her assistance in collecting the necessary material.

My long association with the Industrial Finance Corporation of India and two State Financial Corporations as a Director on their Boards provided me with an opportunity to get an insight into the practical working of development banks. But the views expressed here are my own personal opinions, and none of the above mentioned institutions is responsible for them.

Calcutta
August, 1965

S. K. Basu

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PART I

DEVELOPMENT BANKING—THEORY AND PRACTICE

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The Concept of a Development Bank : Phases in its Evolution

IN the years after World War II Development Banks, as an institutional device, have come to engage a great deal of attention as an effective instrument of economic development. The governments of a large number of underdeveloped countries, aspiring after a rapid rate of economic development, have either directly established such institutions or promoted their organization. There has been, however, no standard pattern of these development banks. Their forms and structures have been diverse ; their objectives and methods of operation have varied widely in their range ; their responsibilities for the respective countries' economic programming has not been uniform. There has been no common formula for guiding their conduct. In other words, there has been no universal model which suited every developing country. Each country has tended to adopt a design suitable for the peculiar social, political and economic framework in which it has to function. Beneath this apparent diversity, however, there is a close similarity in the scope of their basic functions and purposes. They have all been devised to provide at least a few, if not all the fundamental ingredients of economic development, the lack or inadequacy of which may be inhibiting an accelerated pace of progress. Thus a development bank is intended to provide the necessary capital, enterprise, managerial and technical knowhow where these are clearly inadequate or non-available and also assist in building up the financial and socio-economic infra-structure favourable to quick economic development. The emphasis on its various activities has shifted from one country to another according to its peculiar needs and circumstances. In some countries the stress has been on finance ; in some others, on promotion ; in yet others on technical skill and advice ; and again elsewhere on economic planning itself.

Development banks however are not a new institutionalised

device in the sense of an unknown and untried innovation introduced for the first time in the years after World War II. Prototypes of these banks could be witnessed even before World War I and their origin could be traced to the middle of the nineteenth century when the French Credit Mobilier was established by the Pereire Brothers in 1852. There was an earlier institution, the Societe Generale de Belgique founded in Belgium in 1822 with the specific object of financing and promoting industry. But it was the Credit Mobilier of France which had aroused much greater interest throughout the World as a pioneering effort towards building up an institutional structure of industrial finance. Its main object was to function as "a financing institution which would sell the shares in the undertakings it promoted when they were ripe for the market and thus obtain the means of financing new enterprises". Its chief interest was in public utility undertakings which by their very nature could not be expected to show immediate returns. It promoted a large number of railways both in France and abroad as well as insurance companies and subsidiary banks. It founded the first French Transatlantic line and equipped Paris and other towns with gas lighting. Finally, it issued considerable amounts of French and other government loans. Although the Bank initially attained notable success and made large profits, it soon became involved in the crisis of 1857 and had to close its doors in 1867 after a meteoric career of 15 years. The causes of its failure were to be found in its ignoring the basic principle of industrial financing—that of carefully distributing its risks of investment—and in its anxiety to attain a spectacular success and show large profits from the very beginning.[1]

Throughout the nineteenth century the Credit Mobilier provided a great appeal to all countries which were anxious to develop a suitable machinery for financing a rapid rate of industrial progress. It is no wonder that Japan should have chosen it as a model when she founded the Industrial Bank of Japan in 1902 for the purpose of financing her industrial development. Although the Japanese Bank played a significant part in financing the economic development of the country, it has to be distinguished from the modern concept of a development

[1] P. B. Whale, "English and Continental Banking" Lecture II *Journal of the Institute of Bankers*, London, May 1931, p. 262.

bank in relation to underdeveloped countries. A careful analysis of the nature and scope of activities of the Japanese institution will reveal that it was not a specialist institution designed to provide finance and enterprise for industrial development but a "hybrid" institution combining in itself the functions of an issue house, a commercial bank and a mortgage institution. By virtue of the powers granted under its charter the Bank floated and underwrote government and municipal bonds, subscribed for and underwrote shares and debentures of companies, granted loans on the security of real estate, land and factory buildings and on the mortgage of ships and engaged in commercial banking business such as the discounting of bills and the receipt of deposits. With regard to industrial financing it may be observed that the subscription to the share capital of industrial companies required approval of the Ministry of Finance and loans to industry could be sanctioned for not more than a period of five years. Development banks catering for the financial needs of industry have generally been empowered to provide long term loans extending over more than five years. From this point of view the Japanese Bank was at best an instrument for medium term lending. It is only in the case of the ship mortgage loans that the period of its loans was really long term, these being granted for 15 years. Although the Bank was authorised to furnish loans on the mortgage of industrial or other real estate, it had in the earlier stages given the highest priority to ship mortgage loans. It was only in subsequent years when the shipping industry was enveloped in a prolonged slump that it came to develop considerably its mortgage loan business in respect of general industry, large and small. Apart from its rôle as a provider of term finance, it played a very useful part as an issue house and underwriter, floating and underwriting the debentures issued by a large number of industrial companies. In this capacity it assisted numerous public utility companies and industrial enterprises of various kinds such as railways, electric light and power, cement, sugar, paper, artificial manure, motor bus and water works. After the earthquake of 1923 and particularly after the financial panic of 1927 the Bank began to play an active part in the financing of small industries. Thus although the Japanese institution proved an attractive model to countries which were anxious to set up

specialist industrial financing institutions, it was not so either in law or in practice.[1] Since the days of the two pioneering institutions there may be observed several interesting phases in the institutional developments of these financing and promotional devices, the accent of activity shifting from pure financing to promoting and developing or a combination of the two at the same time. These developments have occurred in the private as well as the public sector, in the national as well as the international field.

In tracing the various phases in the institutional developments of industrial finance a reference has to be made at the outset to the so called "industrial banks" of Germany. A great deal of misapprehension is found to have prevailed in many quarters about the true nature of the industrial financing activities of these credit banks, as they were known in Germany. It is commonly believed that the German banks were specialist institutions designed for long term financing and promoting industries. Ideas have been widely current that they even started new industries and acted as their managers. But generally speaking the starting of new industries was not their function. Any impression that the German banks started with selling shares of industrial companies, buying factory sites, bricks and steel and thus established industries would be wholly wrong. They were never specifically designed as long term industrial financing institutions. The truth is that the German banks passed through various phases of evolution. In the first stage of their development the banks had partaken "more of the character of investment trust companies than of banks properly so called". Some of the banks were indeed actually debarred by their statutes from any kind of speculative activity outside the business of banking proper. But in practice they invested in the shares of industrial companies and promoted the establishment of railways, mines and iron works, engineering and textile industries. In the next stage of their development they began to foster the growth of deposit business and their resources came to be considerably made up of short term deposits. But at the same time they did not abandon their old preference for

[1] For a detailed analysis of the working of the Industrial Bank of Japan *see* the present writer's *Industrial Finance in India* (first published in 1939) Chapter IX.

investment banking. The deposit business of this period came to be combined with the investment trust business of the former period. Their business became mixed and varied. They came to be known henceforward as "mixed banks." The evolution of the German banks did not, however, stop at this stage. They began to develop along new lines and in the years after World War I their tendency to switch over to "deposit banking" and that in the English sense of the expression was unmistakable. They came to resemble the English deposit banks in a marked degree. In the post-depression years it was sought to bring about a separation of investment banking from deposit banking by the enactment of a new law, the German Credit Act of December 5, 1934. Thus both law and practice combined to reverse a banking tradition built up in the country over more than a century. It is clear that the German banks cannot be characterised as industrial banks even remotely resembling the specialist institutions set up for financing industry in the present times.

The first phase of the institutional developments referred to above is to be witnessed in the European continent in the years which followed the end of World War I. After the conclusion of the hostilities a large number of European countries came to be confronted with the tremendous task of economic reconstruction. This enormous task of reconstruction, modernisation and development called for an adequate provision of long term industrial finance. The type of machinery that was generally chosen to solve this financial problem was provided by the device of the industrial mortgage bank. The mortgage bank, granting longterm amortisation loans on first mortgages of property and issuing bonds to raise the necessary funds to finance these loans, had proved to be eminently successful for financing longterm operations in various spheres. The device made a powerful appeal to these countries and the machinery was adopted to furnish longterm loans to industry. In the late nineteen-twenties, a number of industrial mortgage banks authorised to issue mortgage bonds and grant longterm loans to industrial undertakings upon first mortgages of industrial real property, factories, buildings, machinery and plant came to be established in several countries of central and eastern Europe. The largest of these banks were the Industrial Mortgage Bank

of Finland Ltd., the National Hungarian Industrial Mortgage Institute Ltd., and the Provincial Mortgage Bank of Saxony. The National Economic Bank of Poland, though not a mortgage bank specially designed for financing industries alone, should also be mentioned here. It was established in 1924 by a special law for assisting the economic reconstruction of the Republic of Poland. These were the first experiments in industrial mortgage banking. The new industrial mortgage banks played an important rôle in the reconstruction and development of the war-shattered economies by providing longterm amortisation loans to various categories of industries, large and small, against the mortgages of factory buildings, plant and equipment, real estate, forests, water-power etc. Unfortunately, they were soon enveloped in the throes of the ensuing great depression and thus their financial achievements cannot be correctly assessed.[1]

Another chapter in the institutional developments of these devices opens in the post-depression period. In several countries attempts were made to form suitable organizations for the provision of medium and longterm finance to small and middlesized industries. The post-depression institutions, however, were in many respects different from the financial machineries evolved in the years after World War I. The industrial mortgage banks of the nineteen-twenties never combined issue and underwriting business with that of mortgage lending; nor did they ever make it their business to provide initial capital to industrial concerns by subscribing to their shares. They were pure mortgage banks and did not even accept deposits, short or longterm. The legislative intent was to keep the institutions strictly confined to mortgage lending and away from investment trust business. Some of the institutional developments in the post-depression period, however, showed an unmistakable, though not pronounced, trend towards combining longterm lending business with that of issue and underwriting and even of holding. The British 'Credit for Industry Ltd.,' established in 1934, was no doubt a lending rather than an investment institution. Its business was to grant medium and longterm loans, to be

[1] A detailed study, the first and probably the only one, of its kind, of the organization, objectives and operations of these institutions was made by the present writer in his book *Industrial Finance in India*, first published in 1939 (*See* Ch. X).

repaid over an agreed period at an agreed rate of interest, against mortgages on real or heritable property or in the form of debentures in limited liability companies. It was never intended to take up shares in any borrowing concern. However several other specialised institutions, formed about that time, are found to have combined underwriting and holding business with that of mortgage lending. The Industrial Credit Company of Ireland was an instance of such intermixture of functions as well as an extended coverage. Its activities included (1) capital underwriting and issue house services, (2) direct share investment, (3) longterm and medium term loans, (4) special loans for re-equipment and expansion, and (5) hire purchase finance for new industrial plant and machinery. Another instance is furnished by the Netherlands Company for Industrial Financing where in addition to the granting of term credits, there was also to be participation in the share capital of industrial enterprises. The Swedish Industrial Credit Company (1934) was authorised to grant term credits and to issue bonds but was not permitted to accept deposits. The Belgian Societe Nationale de Credit Industriel, empowered to issue bonds of five years maturity, was expressly allowed to receive time deposits and thus broke tradition for the first time in this respect.[1] It may be recalled that in the case of the pioneer industrial bank, the Japanese institution, participation in or subscription to the share capital of industrial companies did not constitute an important line of its business and it could be undertaken only with the sanction of the Minister of Finance.

An entirely different phase in the institutional developments is to be observed in the years after World War II. In sharp contrast to the pure industrial mortgage banks of the period after World War I, and the hesitant policy of the post-depression industrial credit companies there could now be witnessed a remarkable trend in favour of a combination of the business of mortgage lending with that of underwriting and, in several important cases, participation in the equity capital of industrial companies as well. Beginning from 1944 interesting developments had taken place in the machinery for financing and promoting postwar industry in Great Britain and several other

[1] Report on the Financial Committee on Agricultural Credit Medium term Credit to Industry (League of Nations).

countries in the Commonwealth. The Industrial Development Bank of Canada (1944), the Finance Corporation for Industry Ltd. (F.C.I.) and the Industrial and Commercial Finance Corporation Ltd. (I.C.F.C.) of Great Britain (1945), and the Industrial Finance Department of the Commonwealth Bank of Australia (1946) are important instances of such machineries being established in developed countries. It may be noticed that the Canadian institution used for the first time the designation of a development bank not familiar in these days. But it had hardly any entrepreneurial and promotional functions which characterise most of the development banks in underdeveloped countries today. It seems to have been designed to provide only financing services. In sharp contrast, the Industrial Finance Department of the Commonwealth Bank of Australia, though not expressly described as a development bank, was intended to provide not only industrial finance but also to assist in the development of industrial undertakings. These Institutions differed from one another in regard to their scope, methods and organization but they conformed to a uniform pattern in so far as their basic functions and their underlying objectives were concerned. They provided financial assistance for industrial enterprises for which such assistance was not readily available through the channels of ordinary banking and the stock exchange, or was of a type which no bank would furnish. Financial assistance provided by them assumed various forms so as to suit the particular needs of their industrial customers and in most cases they were authorised to furnish both loan and risk capital.

The structure of the financing machinery which was evolved in Australia was in some sense unique. The Royal Commission on Monetary and Banking Systems in Australia, 1937, impressed by the difficulties of small industrial concerns in obtaining longterm capital, had recommended the establishment of a special institution for providing fixed and longterm loan facilities. No new institution, however, was created. To give effect to the recommendations of the Commission, an Industrial Finance Department was opened within the Commonwealth Bank of Australia on 2nd January, 1946. The accounts and transactions of the IFD were to be kept separate and distinct from those of the other departments of the Bank. As a special machinery for providing longterm industrial finance, the

Australian experiment was a class by itself. While the Bank of England participated only partially in the share capital of the FCI and the ICFC, the Bank of Canada assumed complete ownership of the Industrial Development Bank. But the Commonwealth Bank of Australia opened a special department of its own to perform the same functions. It was an interesting innovation in the domain of industrial banking. No other Central Bank had taken such a direct part in the provision of industrial finance. We may also note another important difference. While the British and Canadian institutions were strictly financing institutions, the Australian IFD as observed before was envisaged to function also as a development bank, for the law empowered it not only to provide finance for the establishment and development of industrial undertakings, but also 'to assist in the establishment and development of industrial undertakings.'[1] In this respect it resembled to some extent the modern development bank in Latin American and Afro-Asian countries.

The financial methods of the British, Australian and Canadian institutions were closely similar in the sense that they made not only term loans against the security of the fixed assets of industrial concerns but also provided risk capital by subscribing to the share-capital of the companies. The financial facilities provided by the British ICFC have taken a number of different forms including the grant of secured and unsecured loans and subscription to debentures as well as preference and ordinary shares. The British FCI provides loans against security but frequently combines the secured loans with rights to conversion into preference and even equity shares. Such an arrangement not only paves the way for the liquidation of the loan but also affords the Corporation an opportunity of obtaining a reward, commensurate with the risk undertaken by it. The Canadian Development Bank generally makes direct loans but it has powers to share in, or guarantee loans made by chartered banks as well as to underwrite and purchase securities issued by the borrower. Financial assistance provided by the Australian IFD was similarly available in a multiplicity of forms such as overdraft, fixed loan (mortgage or debenture), hire purchase finance, subscription of capital, underwriting of shares and so on. Thus in each instance the financial techniques

[1] Sec. 124. *The Commonwealth Bank Act, 1945-53.*

adopted by these institutions were adjusted to the needs of the particular case.

The British, Canadian and Australian institutions cannot however be characterised as true development banks in the strictest sense of the word as understood in relation to underdeveloped economies. They were specialist machineries set up in countries already in an advanced stage of economic development with the objective of broadening the existing sources of finance for the development mainly of small and medium sized industries during the process of transition from a war-time to a peace-time economy. Thus the IDB of Canada was the product of the general concern that the conversion of a war-time economy to a peace-time basis might give rise to serious unemployment[1] and according to the preamble of the Act establishing it its chief concern was to be "the provision of capital assistance to industry with particular consideration to the financing problems of small enterprise".[2] The British FCI was no doubt intended to cater for the financial requirements of large scale industries, and to assist in their creation, expansion and modernisation but none of the three institutions could be envisaged as instruments of economic development of the respective countries.

At the same time it is interesting to observe that these institutional devices provided the model for some underdeveloped countries which were in search of a suitable machinery for the financing of industrial development as an integral part of their overall economic development. The Industrial Finance Corporations of India and Pakistan are cases in point. These institutions were certainly not conceived in the context of the problem of unemployment that might arise in the immediate post war years nor were they restricted to small and medium industries. On the contrary they were intended to play a definite rôle in the countries' economic development. But curiously enough their financial methods were somewhat more restricted than those of the foreign machineries mentioned above. Thus while the latter were expressly permitted to provide both loan and equity capital, their Indian counterpart was debarred by

[1] Submission by the IDB. of Canada to the Royal Commission on Banking and Finance 1962.

[2] *The Industrial Development Bank Act.* Preamble (RSC. 1952 as amended till 1960-61).

statute from directly subscribing to the initial share capital of industrial companies and was restricted to the provision of loan finance only. The issue whether a development bank should be authorized to provide not only loan capital but risk capital as well is being examined below. But it is clear that the restriction of its activity to one such sphere only will have the effect of limiting its usefulness and will prevent it from tailoring its financial methods to the needs of its customers.

World Bank Technique of Sponsoring and Financing Development Banks

An analysis of the various stages in the institutional developments of industrial finance would not be complete without a reference to the technique of sponsoring and financing development banks for stimulating the growth and expansion of private industry in underdeveloped countries which has been recently adopted by the World Bank. The funds of the World Bank could not be made available to private industrial companies in underdeveloped countries without a government guarantee of repayment. But frequently private enterprises are not inclined to seek government guarantees and many governments find it politically or constitutionally difficult to lend to such companies. Moreover industries in these countries are in need not only of loan capital but also of equity capital. Some of these industries again are small and present peculiar problems of financing. The World Bank obviously could not undertake the responsibility of "screening" the small industrial projects that may be seeking its assistance. To quicken the industrial development of underdeveloped countries a method had to be devised which could make foreign credits available for private projects, sparing the World Bank at the same time the burden of screening a number of relatively small loan applications and dispensing with the guarantee of the host government. In the circumstances the World Bank has in recent years evolved new techniques which can be adjusted to the peculiar problems and economic conditions of each country. One of these techniques which may be called a "local development technique" was however first tried out in a West European country where a 4% loan of $15 million was extended to the Dutch Herstel Bank in July 1949, which was utilised in the form of subloans

to a number of small textile and other manufacturers.

This technique was subsequently extended to a number of underdeveloped countries with suitable variations. In Mexico the Bank adopted the device of providing a line of credit to a local consortium composed of commercial banks and the Nacional Financiera, a government financial agency. The detailed screening of the numerous small scale projects was to be done by the members of the consortium, one of whom had to sponsor the loan application from a private firm. The Bank was to retain the power to ensure that the loans conformed to its general standards and objectives. If the Bank approved, it would lend to such members of the consortium as would wish to participate, the proceeds of the loans being relent to the applicant firm. The results of the Mexican experiment were however disappointing owing to various reasons, among others the availability of private capital from abroad and the unwillingness of the potential borrowers to assume any part of the foreign exchange risk involved.

A variant of this technique was adopted in the case of Turkey when the World Bank promoted a privately owned industrial development bank and provided foreign currency loans to the institution for the purpose of stimulating the growth of private industrial enterprise in the country. Since 1951 when the IDB of Turkey first commenced its operations, the World Bank has provided to it several loans the proceeds of which have been relent to private enterprises in Turkey. The technique of collaboration and of lending to development finance companies for relending the proceeds to private enterprises first adopted by the World Bank in the case of Turkey came to be extended to other countries such as Ethiopia, India, Pakistan, Iran, Israel and Malayasia. In collaboration with the World Bank, a Development Bank was established in Ethiopia in 1951. The Bank gave a loan of $2 million to help provide the original working capital. The Development Bank afforded the country for the first time an adequately capitalised financial institution which would make medium and longterm loans on reasonable terms for projects contributing to agricultural or industrial development,—projects which called for foreign exchange expenditure. The Industrial Credit and Investment Corporation of India was set up in 1955 with the initial sup-

port of a \$10 million line of credit. The Pakistan Industrial Credit and Investment Corporation, the Industrial and Mining Development Bank of Iran, the Industrial Development Bank of Israel, the Malaysian Industrial Development Finance Ltd. have all been recipients of World Bank loans and furnish further instances of the new technique adopted by it for financing the economic development of underdeveloped countries. The Bank's total loans to development finance companies which amounted to \$83.6 million on June 30, 1960, rose to \$282.9 million on June 30,1964 of which \$204.7 million was for Asia and the Middle East, \$58.7 million for Europe, \$19.0 million for Africa and \$0.5 million for Latin American countries.[1]

The International Finance Corporation is another device through which the World Bank is fulfilling its rôle of financing the economic development of underdeveloped countries. As the operations of the World Bank developed, the statutory provision requiring governmental guarantees for its loans coupled with its inability to finance economic development through equity participation in industrial companies raised serious difficulties in the way of the fulfilment of its responsibilities. The authorities of the Bank were therefore anxious to set up a new Institution which working as an affiliate to the Bank could help to fill the existing institutional gap. Its establishment could adapt the World Bank's technique of development programming to the special problems involved in providing risk capital to quicken the economic development of backward countries. The formation of such an affiliate institution was however surrounded with difficulties. The funds for such a corporation would have to be raised mostly out of equity investments made by the capital-rich countries. The American Treasury was not in favour of an international governmental corporation making investments in common stock and taking the management responsibility involved in stock ownership.[2] The original idea had to be modified and a compromise scheme was evolved under which the new corporation, to be known as the International Finance Corporation, would have the authority to buy convertible income debentures instead

[1] Annual Report of the International Bank for Reconstruction and Development and the IDA. 1963-64, p. 20 (Table).

[2] *See* the present writer's *A Survey of Contemporary Banking Trends (Third Edition)* p. 470.

of making equity investments. The IFC was established in 1956 with an authorised capital of $100 million and an initial subscribed capital of $78 million from 32 member countries. The IFC was subsequently empowered to invest in share capital. Since it was authorised to make equity investments, its activity has been more in equity investments rather than in loans. In 1963-64 the IFC made more than half its investments in the form of subscriptions to share capital. At the end of the year the proportion of its portfolio invested in equity stood at 30% compared with 17% a year before. The equity investments and loans of the IFC have not only been made in various private enterprises but also in industrial finance companies which according to Mr. William Diamond number as many as nine development banks. The IFC indeed has in recent years taken the lead among the World Bank group of institutions—the Bank, the IDA and the IFC itself—in considering proposals for assistance to industrial development finance companies. In many cases the IFC has assumed a leading rôle in promoting and establishing new companies of this kind, in others it has helped to expand them by recapitalizing them and making substantial contributions to their resources. The approach of the IFC in this connection has generally been the making of direct investments in these companies in conjunction with the loans already made by the World Bank and/or IDA. In September 1963 the IFC subscribed to 60% of an issue of shares of the IDB of Turkey founded in 1950, amounting to $916,663. The investment complemented the assistance already given by the World Bank (two loans of $9 million each in 1950 and 1953). The IDA had also extended a loan of $5 million to the Turkish government for relending to the IDB. In October 1963 the IFC joined with more than 80 Venezullan and international investors to establish the C.A. Venezolana de Desarrolio, a new private development finance company set up to develop the capital market and to establish expand and modernise private industrial enterprises as well as agricultural enterprises directly related to the former. The IFC's subscription to the share capital of the company amounted to $1.33 million. In March 1964, the IFC and the World Bank joined with investors in Thailand, (mainly banking and insurance institutions) and several other countries to increase

the financial resources of the Industrial Finance Corporation of Thailand, a privately owned company which provides financial assistance to private industrial enterprises. The IFC's holdings amount to 13% of the expanded capital, and the World Bank gave a loan of $2.5 million. The IFCT is the main institutional source of medium and longterm finance in Thailand and provides both loan and equity capital. In April 1964 the IFC helped to expand the share capital of the Colombian Corporacion Financiera de Caldas by its subscription of $701,403. The Colombian Financiera is a private company established to stimulate economic development of the country by providing financial and technical assistance to new and growing industries. Its investment operations include equity participations, short and longterm loans, underwritings and guarantees.[1] The IFC had already been a shareholder in the Malaysian Industrial Development Finance Ltd., the Pakistan ICIC Ltd. (5% of the PICC's share capital)[2] and the National Bank of Development in Morocoo.

A recent case of particular interest relates to the creation of the new Industrial Development Bank Ltd. of Nigeria, the project having been under discussion between the World Bank group and authorities and investors in Nigeria since 1960. The IFC collaborated with American, European and Japanese investment institutions and with Nigerian interests to establish the NIDB, which is an outgrowth of the Investment Company of Nigeria (ICON) owned almost entirely by British banks and industrial companies. The new Development Bank has been designed to furnish both longterm and medium term finance in Nigeria and to concentrate its operations in the mining and industrial sectors. It will assist in the establishment and growth of private enterprises by providing finance and related services and also by attracting foreign capital for economic development in Nigeria. It will seek to broaden the base of private domestic participation in Nigerian Industry by sponsoring new issues, by underwriting and by selling investments out of its own portfolio. The share capital in the NIDB is held by the Central Bank of Nigeria, Nigerian private investors, the IFC, the former

[1] Eighth Annual Report of the International Finance Corporation 1963-64, p.17, p. 69, pp. 35-37.

[2] Annual Report of the International Bank for Reconstruction and Development 1963-64, p.35, p. 40.

ICON shareholders and new participants. The IFC's holdings amount to $1.4 million.[1]

The modern concept of a 'development bank' is closely related to the urge on the part of a backward and underdeveloped country to achieve a quick rate of all round economic development and its search for an appropriate instrument through which such development can be promoted and financed. These development banks are to be witnessed in almost every underdeveloped country in Asia and the Middle East, Africa and Latin America with widely diverse economic and political setups. Thus India, Pakistan, Burma, Ceylon, Chile, Ghana, Mexico, Malaysia, the Phillipines, Nigeria, Puerto Rico, Iran, Nepal, Thailand, Indonesia etc. have all established development banks of their own. Some of these institutions are purely financial institutions, providing either loan or equity capital or both and do not furnish any detailed expert technical assistance, except the routine advice through their liaison departments, and have no engineers, economists, or consultants on their regular staff. Nor do they promote or establish industries or engage in research for making the fruits thereof available to their customers. But there are others which consider the provision of both financial and non-financial advisory, promotional and entrepreneural services as their primary and essential functions. Indeed an institution will be poised to assume the full responsibilities of a development bank and enabled to perform its proper rôle only when it is endowed with financial as well as non-financial promotional functions. The distinction drawn at one time by the United Nations between "a development bank" and a "development corporation", the former providing primarily longterm loan capital only and the latter primarily equity capital and enterprise, has grown shadowy and blurred to-day.

[1] Eighth Annual Report of the IFC 1963-64, p. 30.

2

Ownership and Sources of Funds

DEVELOPMENT Banks as operating in the underdeveloped countries may be classified from the point of view of ownership as (1) government owned, (2) central bank owned, (3) privately owned and (4) mixed, being owned partly by government and/or nationalised central bank and partly by private interests. By far the largest number of these institutions belong to the first and second categories. The number of privately owned banks is the smallest but is steadily increasing. Private development banks are very difficult to establish especially in underdeveloped countries where the entrepreneur spirit is generally lacking. Private capital and initiative are not likely to be attracted to an institution whose activities extend over a field of experimental and admittedly risky ventures. Apart from the inherent risks involved in some of these enterprises there is the question of a long period of waiting before which the private shareholder may expect to participate in the profits. In some cases again profits may not only be delayed but may not appear at all. The enterprise may have to be financed and nursed, irrespective of profit considerations, in the interests of the community at large. In the inflation-oriented economies usually common to underdeveloped countries, where the value of money is rapidly falling, private investors are not likely to be induced to subscribe to the equity capital of development banks whose primary cencern is the provision of longterm loans. Special inducements may have to be offered by way of a hedge against inflation to attract private capital investment in the equity of these institutions.[1] Even when private capital is forthcoming, a private development bank cannot be given a sound financial basis without some government support, such as a guarantee of principal and/or interest of the bank's capital and bond issues, an interest-free loan or some kind of subsidy.

But banks under private ownership and control have some distinct advantages over the public banks. They are likely to

[1] Shirley Boskey, *Problems and Practices of Development Banks*, p. 7.

be free from political pressure and intervention by the countries' parliaments to which public banks are subject by reason of their public accountability. Their investment decisions will be purely objective, their methods flexible and their procedures businesslike.

Development banks owned by government and/or nationalised central banks either wholly or with a majority interest are not also without their advantages. The question of declaring dividends without unnecessary delay need not worry them; the coverage of their activities may be wider and extend to both large, medium and small industries; they can venture into new and pioneering fields; and last but not least they can carry out extensive research and techno-economic surveys beyond the financial resources of private banks.

It must however be observed that the ownership factor is no criterion of efficiency. Private banks are not necessarily efficient and well managed and public banks not necessarily susceptible to political pressure and bureaucratic influence or rigid and unbusinesslike in their methods and procedures.

The recently established Industrial Development Banks of India (1964) and Nepal (1959) are public owned. The Indian institution is wholly owned by the Reserve Bank of the country after the manner of the Canadian Development Bank which is owned by the Reserve Bank of Canada. In the case of the Nepalese Industrial Development Corporation the Act has no doubt provided for private investment but the shares are at present owned by His Majesty's Government of Nepal. The Development Bank of Indonesia (1960) is completely State-owned.

The Pakistan Industrial Development Bank (1961) is a recent instance of mixed ownership. It has been provided that fifty one per cent of the shares issued at any time shall be subscribed for by the central government of Pakistan, and the remaining shares shall in the first instance be offered to the shareholders of PIFC which was converted into the PIDB and if such shares are not subscribed by them shall be offered to the general public for subscription. The Industrial Development Bank (1961) of Burma is according to the Articles of Association a public limited company the share capital of which was to be held both by the Government of Burma and private

investors. The Board was to be composed of government as well as non-governmental directors.

Sources of funds of development banks may be either domestic or foreign or partly domestic and partly foreign, and may be derived from both equity and loans. Equity capital may be taken up by the national government, central bank and/or domestic private investors, institutional or individual. Commercial banks and insurance companies are the usual subscribers of initial share capital as in the case of IFCI, ICIC's of India and Pakistan, and Ceylon Development Finance Corporation. Apart from equity participation governments have sometimes provided longterm interest-free loans as in the case of the Indian ICIC and IDB, the Ceylon Development Finance Corporation and the Nigerian Industrial Development Bank. Sometimes there are foreign, in most cases, institutional investors. The initial subscribers of the capital of the Development Banks in Turkey, Ceylon, Malayasia and Nigeria and ICIC's of India and Pakistan included foreign banks and insurance companies. Resources of the banks are also largely raised through bond issues either in the domestic or in the foreign capital market. The Development Bank of Japan curiously enough is not authorised to issue domestic bonds. The World Bank with its affiliate the IFC, and the Agency for International Development have been the chief foreign lenders to development banks. The German Bank for Reconstruction (Kreditanstalt Fur Wiederaufbau) also has recently been lending to development banks. Two loans of DM 15 million and DM 25 million have been provided to the IFC of India, and one of DM 28.17 million has been made to the ICIC of India.[1] The proceeds of these loans are intended to be relent to the countries' industrial enterprises in the private sector mainly for financing their imports of foreign machinery and equipment.

Foreign collaboration and foreign investment have this great advantage that they bring with them foreign know-how as well. In many industrial lines technical know-how is as important as the availability of capital.

Development banks, however, sometimes experience difficulties in utilizing these foreign funds because of certain policies which the lending institutions often adopt. In the early stages

[1] Ninth Annual Report of the ICICI (Scheme of Loans) p. 30.

of industrialisation some sort of protection has to be provided for domestic industry. They may make domestic costs out of line with international prices and lead to objections by the international institutions. Commercial and political considerations in the lending countries raise further difficulties. Loans sometimes are "tied" to purchases in the creditor country and such a policy may stand in the way of sound development of the debtor country. A notable feature of the lines of credit extended to the IFCI by the German Kreditanstalt is that the proceeds can be utilised for sub-loans for importing plant and machinery not only from West Germany but also from other countries outside the Sino-Soviet bloc.[1]

Apart from these external sources of finance the Development Banks' chief internal source of finance consists of the repayments of principals and the reserve fund which they have built up. The sources of funds of the Development Bank of Japan during the recent ten years indicate that 4.4% was contributed by share capital, (cash investment from government), 38% by borrowings from government, 14.5% by borrowings from the World Bank, 35% by repayment of principal and 7.7% by reserved earning.[2] Some Development Banks have been authorised to receive term deposits from the public. But deposits should not be regarded as an appropriate source of finance for such banks and the receiving of deposits has not been included in their business in most cases. The issue of development banks accepting deposits is being examined below in detail.

Foreign Currency Funds of Development Banks

If development banks have to play their rôle in financing and promoting the economic development of their countries they must have an adequate amount of foreign exchange resources. The developing countries where they operate have very slender resources of foreign exchange quite unequal for the tremendous task of building up their industrial potential. Capital goods have to be imported on a sizeable scale and the necessary foreign exchange has to be found for these imports. Schemes of industrial projects applying for the assistance of development banks have usually a fairly large foreign exchange com-

[1] Fifteenth Annual Report of the IFCI, 1962-63, p. 22.

[2] Paper submitted by the Japan Development Bank at the First Regional Conference of Development Banks in Asia, Bombay 1962.

ponent. The mere provision of loans in domestic currency would be of no avail for such projects. The difficulties faced by a development bank lacking foreign exchange resources originally are well illustrated by the case of the Indian IFC. From its inception down to 1960 the Corporation had no amount of foreign currency funds at its disposal. Speaking at the Twelfth Annual General Meeting of the Corporation (1960), its Chairman drew pointed attention to this handicap from which it was suffering and observed that the rôle of the IFC in the industrial development of the country would have been brighter and more impressive if it could provide loans in foreign currency to its customer concerns. In January 1960 when the Corporation was negotiating for a loan in foreign currency from the American DLF[1], the position was that loan applications for a total amount of Rs. 6.15 crores had to be withdrawn for want of import licences and out of the remaining proposals there were applicants who were banking on foreign exchange credits of at least Rs. 20.93 crores to enable them to implement their schemes.[2] These figures provide a measure of the importance of the foreign currency component in the financing by development banks of large scale industry.

The main terms and conditions of the loans in foreign currency from the DLF are that such loans are made available to development banks for the grant of sub-loans to industrial concerns in the private sector for approved projects. Some types of activity however are not eligible for these DLF loans as in the case of the IFC of India textiles, hotels, shipbuilding, beverages and petroleum refineries have been excluded from the purview of these sub-loans. Repayment of these sub-loans is to be made in national currency and the period of the loans may vary from 5 to 25 years. Purchases of capital equipments, materials and services out of the sub-loans have to be made in the USA except where the amount of the loan is for less than $100,000. In that case purchases may be made in U.K. and most of the Western European countries. Cost of transporting the equipment and materials under sub-loans of amounts exceeding $100,000 will be financed only if they are shipped in American

[1] The first DLF loan was sanctioned to the IFC for an amount of Rs. 4.7 crores in U.S. dollars in April 1960.

[2] Speech of the Chairman at the Twelfth Annual General Meeting of the IFC 1960, p, 4.

vessels. In any case 50% of the gross tonnage of these items will have to be transported in privately owned U.S. ships.

The IFC, as pointed out earlier, has also received foreign currency loans from the American AID, the French BFCE and the German Kreditanstalt. Excepting the West German credit all the other lines of credit are "tied" to purchases in the respective countries. The gap in foreign exchange resources has been bridged to some extent with the help of these credits. The amount of sub-loans in foreign currency approved by the IFC totalled Rs. 9.29 crores in 1963.[1] Similar loans from the American AID and the German Kreditanstalt have also been received by the Indian ICIC and the Nepal IDC.

A problem that faces development banks which have obtained loans from abroad directly and have to make repayments in foreign exchange is that of the possible risk of depreciation in the rate of foreign exchange. The question is who will assume this exchange risk, the bank, the sub-loanee or the government of the country? If the government bears the risk, that would be a discrimination in favour of the concern whose programme has a large import content and would amount in effect to a subsidy. As a consequence the pattern of investment may be distorted. If the Bank is to assume the risk, a devaluation of the national currency would seriously affect the Bank's capital. The best way would be for the Bank to pass on the risk to the borrower. It is he who should appropriately bear the risk. If the concern had to borrow the funds from abroad directly, it would certainly have been exposed to the normal exchange risks at the time of repayment. The practice in this respect however is not uniform and seems to have varied from one bank to another. In the case of the Ceylon DFC it has been provided that the government shall bear any loss, and be entitled to any profit resulting from any revaluation of the Ceylon rupee in relation to the currency in which government guaranteed foreign loan is expressed.[2] But the Charter of the Industrial Development Bank of India which empowers it to borrow foreign currency for the grant of loans and advances has laid down that any loss or profit arising out of fluctuations

[1] *See* speech of the Chairman at the 15th Annual General Meeting of the IFC, September 1963.

[2] *Development Finance Corporation Act of Ceylon*, 1955, Sec. 14(6).

in the exchange rates shall be reimbursed by or paid to the recipients of such loans and advances.[1]

Relation between Debt and Equity in the Capital Structure of Development Banks

As shown above, development banks have generally been authorised to issue bonds or debentures. In fact besides the paid up share capital the main source of funds for their operation comes from the proceeds of their bond issues or borrowings. Indeed as development banks expand their loan and investment activities, they have to place increasing reliance on borrowings from the government and the Central Bank or in the market through the issuing of bonds to augment their resources. A shift in the sources of the funds of the banks inevitably takes place; the proportion of the total financial resources of the banks borne by own funds in the form of paid up capital, reserve fund and other reserves tends to decline while the proportion of bonds outstanding increases. This trend is well illustrated in the case of the IDB of Canada. In 1955 outstanding bonds constituted only 22% of the Bank's total financial resources; but in 1962 this proportion had risen to 70%. The shift in the sources of funds has a marked effect on the cost of money to these banks. Before the Canadian IDB had begun to issue bonds in 1951, its cost of money was nil. In 1962 the average cost of money amounted to 3.27% per year. An important question that arises in this connection is what proportion the bonds issued by the banks and borrowings in other ways should bear to their capital and reserves. The bonds issued by development banks and mortgage institutions are analogous to the deposits received by the commercial banks. But while the funds of the commercial banks are essentially short term, those of the bond issuing corporations are not so and may therefore be appropriately used for granting long term loans of several years' maturity. As a result of convention or statutory obligation commercial banks have to maintain certain reserves to their liabilities. In the same way convention or law has stipulated that an equilibrium should be maintained between the bonds in circulation and the outstanding loans. Generally the face value of the bonds in circulation should not exceed the total amount of the outstand-

[1] *The Industrial Development Bank of India Act 1964*, Clause 12(4).

ing loans. Further the extreme limit of bond issues is fixed at a certain number of times the paid up capital or paid up capital plus reserves, the total volume of bonds in circulation always bearing a fixed proportion to the latter. In some cases instead of prescribing a fixed proportion between outstanding bonds and owned capital, a ceiling is imposed on the maximum amount of bond issues or total borrowings. The principle underlying such prescriptions is the prevention of excessive issue of bonds and the guarantee of the security of the bondholder. Mortgage banks, whether agricultural, industrial or urban, have almost invariably provided for some limitation to the issue of bonds. A study of a representative list of 22 agricultural mortgage banks in Germany shows that the bond issues varied between 17 times the capital and reserves to 7.5 times, the average being 12 times.[1] The ratio elsewhere was sometimes as high as 25 times the paid up capital.[2] In the field of industrial credit, however, the limit is more conservative. With the Industrial Mortgage Bank of Finland (1924) the limit was 10 times the capital and reserves. Instances of overall limitations of the maximum amount of bond issues are provided by the Industrial Mortgage Bank of Saxony where the limit was placed at 75 million RM and by the Spanish Banco Credito Industrial where it was 150 million pesetas.[3] In the case of institutions issuing bonds or debentures, not necessarily mortgage banks, the general rule has also been to adopt some kind of limitations of bond issues. The British Investment Trusts have generally provisions for placing some limitations on their bond issues. The average of 50 of the leading British Trusts shows a ratio to total stocks of two to three.[4]

It is abundantly clear from the above discussion that some limitation has to be placed on the bond issues and borrowings of the development banks. Their total borrowings should be made to bear some fixed proportion to their share capital and reserves. The fixation of such a ratio will tend to promote the security of the bonds and the confidence of the investors. Generally speaking, it may be observed, the greater the propor-

[1] J. L. Cohen, *The Mortgage Bank*, p. 144.
[2] N. T. Herrick. *Rural Credits*, p. 221.
[3] See *Industrial Finance in India*, by the present writer (4th Ed.) p. 341.
[4] Lawrence M. Speaker, *The Investment Trust*, p. 35.

tion of bonds to capital and reserves, the lower the element of safety. But there is no generally accepted or single "correct" ratio between the loan and equity capital which can be laid down for all development banks. A great deal will depend upon the types of assets accepted as security for their loans and upon their loan and investment policies, in other words upon the risks of investment. Where the risks of investment are greater, the capital structure of the banks should not be made up of a high proportion of loan capital. Thus if the development bank is intended to provide equity capital to its industrial customers rather than loan capital, it will not be prudent to provide for a preponderance of borrowed funds in its capital structure. On the other hand, if it is contemplated that the bank should primarily be a provider of loan finance rather than equity finance, a relatively greater proportion of debt in its capital structure may not be wrong. Institutions which cover their loans partly by mobile assets should have the relation of bonds issued to capital lower than purely land mortgage banks which advance against real property. It may be observed however that the ratio need not be fixed at too low a figure for it will hinder the proper functioning of the banks for lack of funds. Different expert bodies have recommended different debt-equity ratios for institutions authorised to issue bonds. The 'Foreign Experts' who had assisted the deliberations of the Indian Central Banking Enquiry Committee were in favour of a 2:1 ratio for the future Industrial Bank of India; while the World Bank suggested a ratio of 3:1 for the banks in Iran, India, Pakistan and Turkey which it helped to set up. In actual practice a large variety of debt-equity ratios is to be observed in the capitalisation of development banks. The Canadian IDB which is a public bank has been authorised "to issue and sell bonds and debentures ...... provided the aggregate of such indebtedness does not exceed five times the sum of paid up capital and reserve fund". The same debt-equity ratio of 5:1 has been prescribed for the Pakistan IDB, a mixed bank. The IFC of India has been empowered to borrow from the Central Government and the Reserve Bank and through debenture issues upto ten times its paid up capital and reserves, as against five times as originally provided.[1] In the

[1] Sec 21(4) The Industrial Finance Corporation Act, 1948,

case of the Development Banks of Japan and Burma the ratio is considerably lower. Total outstandings and borrowings of the Japanese Bank have been restricted to twice its capital and reserve, while in the case of the Burmese institution amounts borrowed and guaranteed and outstanding at any time must not exceed three times the aggregate of its unimpaired capital and reserves.[1] As an instance of an overall ceiling being imposed on total borrowings, the ICICI may be mentioned. The amount of its total borrowings or guarantees must not exceed Rs. 75 crores. The newly established IDB of India however has been authorised to issue and sell bonds and debentures without any statutory prescription of a specific relation to its capital and reserve.[2] This is rather curious and is out of line with established theory and practice in this respect.

[1] Art 108 of the Articles of Association of the IDB of Burma, 1961.
[2] *See* Clause 11(1) of the IDB of India Act 1964.

3

Financial Methods of Development Banks

THE hard core of the function of development banks is provision of finance. Development banks established in the post war years are found to have been empowered to provide this finance in various forms such as granting of loans with or without security to industrial enterprises, subscriptions to shares, preference and equity, and debentures of industrial companies, guaranteeing loans raised by them from other sources, domestic or foreign, guaranteeing deferred payments in respect of imports of plant and equipment and underwriting the issue of industrial stock, shares, bonds and debentures. An important issue that faces us at the outset in our study of the financial methods adopted by these banks is the question whether they should confine themselves to the provision of loan capital only or to that of risk capital as well by directly subscribing to the ordinary shares of industrial companies. A careful analysis of the charters of more than 71 development banks operating today in the underdeveloped countries shows that by far the larger number, more than 41 have been authorised to provide both loan and equity capital. Phillipines presents an interesting case in that there are two separate institutions providing the two different forms of capital. While the Phillipines Development Bank is restricted to the provision of loan finance only, the National Development Company has been confined to that of equity finance. India possesses today an "array" of development banks, the earliest among these being the Industrial Finance Corporation established in 1948. Although a number of development banks had already been in operation in some of the underdeveloped countries, the concept seems to have been hardly understood in India. The framers of the charter of the IFC were obsessed with the objective of providing financial facilities and that in the form of loans and guarantees only rather than in that of equity capital. The question of providing

research, promotional and technical facilities did not engage their attention at all. And for a model the Government of India turned to developed countries like U.K. and Canada rather than to the really underdeveloped countries. Here again although the Indian Corporation was patterned closely on the lines of the British and Canadian financial machineries, it made important departures in respect of the forms in which its financial assistance could be furnished and in respect of the financial methods that would be pursued. Whereas the British FCI and ICFC, the Canadian IDB and even the Industrial Finance Department of the Commonwealth Bank of Australia were empowered to purchase and hold shares issued by the borrowing concerns, the corresponding agency in India was entirely debarred in its original charter from this type of business. Curiously enough, although the Corporation was prohibited from purchasing the share capital of industrial companies, it was authorised to underwrite the issues of share capital by these companies and hold them only for a limited period. Underwriting business may be more risky than direct subscription to equities. In the process of underwriting, the Corporation may be saddled with an unpredictable and uncertain amount of share holdings to be disposed of, under the law, within a limited period irrespective of market conditions. It is difficult to escape the logical conclusion that the Corporation might as well be authorised to subscribe to the share capital of such companies. On the other hand if the legal bar against the provision of equity capital was intended to continue it should be excluded from underwriting business and be confined to the functions of pure industrial mortgage banks of the late 1920's. In the case of the British ICFC, the provision of risk or equity capital has been considered by its authorities as an important part of its function. In actual practice the percentage of share holdings in relation to total investments has not differed much from the percentage of secured loans in relation to total investments over a period of years. By March 31, 1963, 45% of its total investments was in shares, 55% being in loans, secured and unsecured.[1] Some of the loans again were not "straight loans" but incorporated options of conversions into equities.[2]

[1] Nineteenth Annual Report of the ICFC 1963-64, Table 4, p. 20.
[2] Art. by Brian Tew Art entitled "ICFC Revisited" *Economica*, August, 1955.

The British FCI has also provided both loan and risk capital. The latter has been furnished either in the form of cash subscription to the paid up capital or in the form of loans with rights to conversion into preference shares or equities in the ventures it has assisted. The legal ban on the provision of equity capital to industrial companies by the Indian Corporation considerably restricted its usefulness, for it was prevented from adjusting its financial methods to the peculiar needs of its individual customers. This lacuna in the Indian Corporation was all the more glaring because the majority of the development banks as shown above had combined the provision of loan capital with that of equity capital. India's neighbouring countries like Ceylon (Development Finance Corporation), Nepal (Industrial Development Corporation), Burma (Industrial Development Corporation) and Indonesia (Development Bank of Indonesia) as well as the newly independent countries like Malayasia (Industrial Development Finance Corporation), Ghana (Industrial Development Corporation) and Nigeria (N.E. and W. Regional Corporations) have all equipped their development banks with the twin functions. In underdeveloped countries it should be remembered, what industry requires is not simply loan capital but in most cases venture capital as well.

The ban on the provision of equity capital by the IFC made it difficult for some of the loanee companies to obtain advances from banks against floating assets for working capital purposes. It is well known banks in India are reluctant to make advances to a company on the security of its floating assets when its fixed assets are mortgaged. If the assistance provided by the IFC were partly in the form of a mortgage loan and partly in the form of ordinary or preference shares, the company need not have experienced any difficulty of this kind.

The removal of the ban on the subscription by the IFC to the equity capital of its customers would further be of considerable help to them in attracting capital from the investing public. Such equity participation would be regarded as the hallmark of approval of the financing institution for the underlying project and would provide the necessary appeal in the investment market. The point of view advanced above is strongly supported by a well-known authority on development banks.

Mr. William Diamond, in his recent publication. "Equity, rather than loans, is often the appropriate way of providing the required capital ...... and a development bank ought to be prepared to take equity participation in lieu of or in addition to making loans".[1] Unlike many underdeveloped countries, equity participation by development banks in India like the IFC is relatively feasible owing to India's fairly well developed capital market and widespread use of the corporate form of organisation. In an inflation-oriented economy such as India's, there is a special case today for equity financing by development banks. Under continuous and severe inflationary conditions there is considerable erosion of the real value of the long term loans made by the development banks. Some banks have charged higher rates of interest on their loans as a safeguard against the erosion of this real value. But it is clear full protection against inflation cannot be secured through the interest rate. The incorporation of escalator clauses tied to some specified index of prices or dollar clauses in the loan contract has often been adopted by way of an inflationary hedge. The Chilean Fomento Corporation attempts to protect itself by lending with a dollar clause as well as by charging high interest rates. The IDB of Israel sometimes inserts in the loan agreement a clause linking the value of the loan to a cost of living index.[2] But equity participation is probably the best device which a development bank can adopt to safeguard its interests against the ravages of persistent inflation. Even when it has to provide long term loans it should insist upon conversion rights. A development bank like the IFC which has to operate in an inflation oriented development economy inevitably has to place relatively greater emphasis upon equity investments rather than upon long term loan financing.

Clients of development banks are sometimes anxious for at least a token participation in their equity capital, which may appear to the investors to be evidence of their approval. The IFCI and ICICI and the Puerto Rico IDC have experience of such appeals for at least a token equity participation. But the attitude of the industrial customers is not always favourable

[1] William Diamond, *Development Banks*, pp. 51-52.
[2] Shirley Boskey, *Problems and Practices of Development Banks*, pp. 71-72.

towards such participation, especially if the industrial enterprises are small or medium sized. The industrial customers of the Canadian IDB, particularly the small ones, have been markedly reluctant to share their ownership of capital because of the fear of consequent dilution of share capital and of disclosure of the details and secrets of the operation. The Canadian Bank though anxious to engage in equity financing has been obliged to restrict its scope severely.[1] Opposition to equity participation on the part of private firms has been particularly strong where the development bank is owned by the government. Such opposition has been mainly due to fear of government interference in their internal management.

Ever since the inception of the IFC the present writer had been highlighting the anomalous position of the IFC both from a theoretical standpoint and from that of policy objectives. He had been vigorously arguing the case for authorising the IFC to subscribe directly to the equity capital of industrial companies together with conversion rights in the course of his writings, lectures and letters to the Finance Minister and memorandum to the Board of Directors of the Corporation during the last 15 years. But there was stiff opposition to such proposals from the authorities concerned on the plea that participation in the share capital of industrial companies would expose the IFC to grave risks. This opposition was based on an entire misconception of the nature and functions of modern development banks and a confusion of such institutions with commercial banks. Admittedly development banks have to take risks; indeed it is in their very nature, and their policies must be free from the inhibiting conservatism of ordinary banks.

At long last the force and cogency of our arguments seem to have been recognised and the attitude of the authorities has undergone a remarkable change. The original IFC Act was amended in 1960 so as to empower the Corporation to subscribe directly to the equity capital of industrial companies and also to exercise at its option the right to convert its loans and advances to, and subscriptions of debentures of, an industrial concern into stock and shares. The amendments, it is gratifying to note, are exactly along the lines we have been suggesting

[1] Submission by the IDB of Canada to the Royal Commission on Banking & Finance. E-1.

for all these years, and will help in making the pattern of the IFC operations conform to the practice of the majority of development banks. Even in small countries like Turkey and Iraq, the development banks are found to have participated in the share capital of a variety of industrial companies. The percentage of the Iraqui Bank's participation varied in 1962 from 6.2% to 42.6%.[1] Ever since their inception the Ceylon Development Finance Corporation (D.F.C.) and the Nepal IDC have also been providing not only loan capital but also participating in equity capital[2].

In conclusion however it must be observed that direct investments of development banks in the shares of industrial companies have by and large constituted a much smaller proportion of their total financial assistance than loans. The following table brings out the relative importance of share participations and loans in the business of some development banks.

DFC of Ceylon[3]

As in 1961	Rs. (Ceylon)
Shares	2,916,320
Loans	16,025,098

ICIC of India[4]

Upto 1964	Rs. (India)
Direct Subscriptions to Shares (ord.)	319 lakhs
Loans and guarantees disbursed	4129 lakhs

IDC of Nepal[5]

Upto 1963-1964	Rs. (Nepalese)
Share participations in industrial firms	2,262,760
Loans disbursed	14,232,401

[1] Paper presented by the Industrial Development Bank of Iraq to the First Conference of Asian Development Banks in Bombay, 1962.

[2] Reports of the Directors and Accounts, Development Finance Corporation of Ceylon 1959-1961.

[3] Annual Report of the Ceylon Development Finance Corporation, 1961.

[4] Tenth Annual Report of the ICICI 1963-64, p. 15.

[5] Fifth Annual Report of the Nepal IDC 1963-64, p. 2.

It is interesting to observe that even though the IFC of India has been armed since 1960 with new powers to subscribe directly to the equity capital of industrial companies, it has in actual practice made no direct subscription to any share issues. It has subscribed directly only to one debenture issue of Rs. 1.82 crores. Evidently it has not yet been able to free itself from the old incubus of conservatism.

4

Commercial Banking Business of Development Banks

Provision of Working Capital

Development Banks are specialist institutions set up with the broad objective of providing long and medium term capital and other facilities for promotion and expansion of industries as well as to stimulate the capital market by mobilisation of funds lying dormant through the exercise of underwriting and issue house functions.

In the circumstances they are by and large averse to the provision of working capital for industrial enterprises. The general view is that permanent working capital needs should be financed out of the paid up capital of the company, while temporary working capital requirements should be met by the commercial banks. Particularly where banking and credit facilities are well developed and industry can make recourse to commercial banks for its necessary working capital finance, development banks need not enter this field of activity. But where banking and credit facilities are inadequate, development banks may usefully fill the gap if their customers are in need of such working capital. There are some banks which consider the provision of working capital a part of their usual functions, others, only under certain circumstances and in limited amounts, and yet others which do not provide it at all. The Mexican Nacional Financiera and the South African IDC take into account the difficulties which their customers may face in raising working capital as well as their peculiar operating conditions which may call for the maintenance of substantial stocks of raw materials and stores. In such circumstances they readily furnish working capital. The Chilean Fomento Corporation has been authorised to provide such capital for new ventures only and not for established enterprises. The IDB of Canada does not as a rule provide funds for financing inventories or receivables as an alternative to borrowing from banks. But where a growing

business is short of working capital, purchases of equipment having reduced it to an unsatisfactory level and there is a basis for a term loan secured by mortgage, it is prepared to supplement current financing from other sources.[1] Sometimes where the fixed assets of an enterprise are already mortgaged to the development bank, it may find it difficult to obtain its requirements of current finance from the banking system, which as in India may be reluctant to make short term advances for working capital purposes against the floating assets alone. The IFC of India in the earlier stages of its operation was reluctant to provide working capital at all. But it has now come to appreciate the difficulties of some of its customers in financing its working capital needs by bank loans secured by goods in process or raw materials. It is now exempting from the security of its loans such liquid assets as raw materials, goods in process and finished goods so that the loanee company may hypothecate or pledge the same with a commercial bank to obtain its working capital. It has also been providing finance for working capital purposes in exceptional cases.[2] The Nepal IDC proposes to make a departure from the usual practice of development banks in providing short term credit as it is necessitated by local conditions. Commercial banking is still undeveloped in Nepal and scarcely meets the credit needs of industry. The Pakistan Industrial Development Bank (1961) has been authorised to cover most fields of banking including the granting of short term advances but it has been prohibited by its charter to make short term loans for purposes of working capital to any industrial concern, (i) except in accordance with the rules made in this behalf and (ii) of an amount in excess, at any time, of 25% of the total advances made to such concerns except with the prior approval of the State Bank.[3] Neither the IDB of Burma nor the recently established IDB of India has been expressly authorised to furnish such short term finance for working capital requirements. The Pakistan ICIC does not seem to have adopted any firm rule with regard to working

[1] *Industrial Development Bank—A Source of Financing for Canadian Business*. p. 4.

[2] Paper presented by the Industrial Finance Corporation of India before the Regional Conference of Asian Development Banks, Teheran, 1963.

[3] *Sec. 28. The Industrial Development Bank of Pakistan Ordinance, 1961.*

capital financing. The Indian ICIC does not as a rule provide working capital because it does not want to compete with the ordinary business of commercial banks. But it concedes that a Development Bank may have to provide working capital where commercial banking is not well developed. The IMDB of Iran considers that the provision of working capital is within the scope of a development bank. The responsibility of such an institution is to assist the financing of industrial projects. Working capital is as much an essential part of a project as its fixed capital. But the resources of development banks are not unlimited. They should use their funds to assist as many enterprises as possible. The financing of working capital is basically a function of commercial banks. But where they are unable to meet the entire requirements the IMDBI thinks that development banks should step in.[1]

Receiving Deposits and other Commercial Banking Business

A large number of development banks have been authorised to accept term deposits, mostly of more than one year's maturity. The Indian IFC and SFC's, the recently formed Indian IDB, the IDBs of Burma and Pakistan have all been permitted by their charters to accept deposits. But neither the Japanese Development Bank nor the German Kreditanstalt is authorised to receive deposits.[2] The Canadian IDB is also prohibited from accepting deposits (Sec. 25) except as security for due discharge of obligations under a loan or for the due performance of an agreement with the Bank. Receiving deposits from the public even for periods of more than one year is to our mind not an appropriate function of development banks. When there is a well developed banking system and there is acute competition among the banks as in India, it will be wrong in principle for the development banks in their privileged position and enjoying government support to enter into competition with the ordinary banks. There is also a marked reluctance on the part of the public to put their money on deposit with these public or semi-public development banks.

[1] Memorundum submitted by IMDB of Iran to the Second Asian Development Banks' Conference at Teheran, 1963.

[2] Art 2. Sec. (3) of the Law Concerning the Kreditanstalt fur Wiederaufbau 1961.

It is interesting to find that neither the IFCI nor any one of the SFC's except one has been able to attract any deposit all these long years since their inception. The main obstacle probably consisted in the relatively low interest rates they could offer on their term deposits. They were not allowed to quote competitive interest rates on deposits as the monetary authorities apprehended that such action would be prejudicial to the government securities market. The Pakistan Industrial Development Bank has since its establishment made great efforts to attract long term deposits but these efforts have not been successful. There was hardly any scope for obtaining deposits of this nature in the existing state of the country's money market.[1] From the point of view of principle again, unless the deposits were for a relatitvely long term, say for 10 years or so, it would be unwise for the development banks, even if they secured them, to employ these admittedly short term resources for long term loans. The industrial mortgage banks which were established in European countries in the years after World War I did not, as a rule, accept deposits and regarded this business to be incompatible with mortgage banking.

Apart from receiving deposits, there is the further question whether development banks should undertake other forms of commercial banking business such as discounting of bills, opening letters of credit etc. The Japanese Industrial Bank is the classical instance of an intermixture of mortgage and commercial banking. But development banks established in recent years in the underdeveloped countries have not always been expressly authorised to perform such kinds of commercial banking business. In some cases development banks empowered by their charters to engage in such kind of business are gradually limiting it or abandoning it altogether. A typical case is furnished by the Industrial Bank of Iraq. Commercial banking functions such as opening of letters of credit previously handled by the Bank were curtailed in 1958. Although they were resumed to some extent in 1961, their volume is quite limited. In the case of some of the newly established development banks, the coverage of their functions has been made very wide and there is a tendency to include the drawing, accepting, making, discounting, negotiating, executing and issuing bills of exchange,

[1] Annual Report of the IDB of Pakistan, August 1961-June 1962.

promissory notes and other negotiable instruments. The Deve lopment Banks of Burma (Sec. 36) and Pakistan (Sec. 14) and the Industrial and Mining Development Bank of Iran (Art 5 Sec. 8) provide good instances in this respect.

5

Scope and Coverage of the Activities of Development Banks

THE scope and coverage of the Development Banks' activities may be studied from several points of view: whether their activities should cover (1) private or public enterprises or both; (2) small and medium or large sized enterprises or both; (3) manufactures or both services and manufactures; and lastly (4) industries or both agriculture and industries.

It would not be appropriate to attempt a rigid definition of the ideal scope of work for development banks. The activities of such banks must be related to the peculiar conditions of the country where they operate. The functions of no two development banks will therefore be identical: there will be variations in the scope cf these functions according to the variations in the emphasis placed on them in the different economies. The size of the economy, the stage of its development, the socio-economic framework of the country, its banking and financial infrastructure, the political outlook of the government and the credit policies pursued by it determine the variety and nature of the functions of the development banks. In most cases it will be desirable to have separate institutions for promoting and financing public and private enterprises; industrial, agricultural, power and mining projects; and small scale and large industries. The mixture of public and private projects within the scope of a single institution may not be feasible. Unless the development bank is government owned and controlled, the financing of enterprises in the public as well as in the private sector may threaten the independence and sound management of the corporation. The standards of appraisal and follow-up applicable to government projects may not be identical with those applicable to private projects and it will be difficult to mix the different standards.

Development banks established in the underdeveloped countries in the earlier years were frequently designed to execute

government investment projects. Some were even authorised to formulate plans for economic development. The Sumer Bank of Turkey and the Bolivian Fomento Corporation were chiefly interested in establishing and financing government owned enterprises. But most development banks set up in the recent years have not been conceived as administrative devices for financing and managing government projects. They have been formed, even where they are partly owned and controlled by government, with the objective of injecting capital, enterprise and technical know-how into the preferred areas of the private sector rather than into the public sector. They have been set up, as it has been well observed, as "catalysts for private investment." Thus the Industrial Development Bank of Burma (1961) clearly defined its objective as promoting, assisting and participating in the establishment, expansion and modernisation of productive enterprises within the *private sector* in the Union of Burma. The Nepal Industrial Development Corporation (1959) is similarly intended to extend credit facilities to and participate in private industrial enterprises. The Industrial and Mining Development Bank of Iran was established with the object of developing, encouraging and stimulating *private* industrial, productive, mining and transportation industries in Iran. The Industrial Finance Corporation of India, even though the government and the nationalised central bank held a large interest in its share capital, was designed to finance enterprises in the private sector. The Finance Minister piloting the Bill in the legislature observed that the Corporation was not intended to meet the financial requirements of nationalised industries but only to provide finance for the needs of private industry.[1] It has been known to reject applications for financial assistance from industrial enterprises which are owned even partly by government. The Industrial Development Bank of Turkey is intended to provide loans to Turkish private industry and establish new private enterprises. The Industrial Finance Corporation of Thailand does not however preclude from the scope of its financing an enterprise merely on the ground of the existence of a public interest. If notwithstanding that interest, the enterprise is essentially private in character, there is no bar to its financing. In most cases however there is no statutory defi-

[1] Legislative Assembly Debates, 20th November 1947, p. 384.

nition of 'private' enterprise. But sometimes to avoid practical difficulties such an enterprise has been rigidly defined as in the case of the Ceylon Development Corporation where a concern will be deemed eligible for assistance as a private one if the government does not hold more than 20% of its capital.[1]

The National Industrial Development Corporation Ltd. of India provides the case of a development bank, which, owned by the government, was designed "to aid, assist and finance any industrial undertaking or project whether owned or run by government, statutory body or private company, firm or individual".

A good recent instance of a development bank designed as part of the government apparatus for promoting and financing the overall development projects of the country is furnished by the *Bank Pembangunan Indonesia* (Development Bank of Indonesia) which commenced its operations in August 1960. With a basic capital of ten billion rupiahs contributed by the government and with the privilege of obtaining a portion of the profits earned by State enterprises, its main task is to finance both self-liquidating and non-self-liquidating development projects, the former directly and the latter under a government guarantee or indirectly by canalising government funds through it. It has been enjoined to participate in the drawing up of development budgets in the coming years. The State enterprises financed by the Bank belong to agricultural, industrial and mining sectors and are included within the framework of the development budget as well as outside it.[2]

Agriculture, power, mining and housing development have specific problems of their own. The high degree of risks, and large administrative costs involved in the promotion of projects in these areas call for specialised institutions to deal with them. But there are many marginal areas where agricultural and industrial operations are combined and operational flexibility has to be maintained. In such cases perhaps the same institu-

[1] Development Finance Corporation of Ceylon Act No. 35 of 1955 Sec 4 (2) "Any industrial or agricultural enterprise in Ceylon in which the Government holds not more than twenty percentum of this capital shall be deemed to be a private industrial or agricultural enterprise in Ceylon".

[2] *See* Law substituting Government Regulation NR 21 1960 regarding Bank Pembangunan Indonesia and Annunl Reports of the Bank 1960 and 1961.

tion may be entrusted with responsibilities for development and financing in more than one field. The Ceylon Development Bank and the Industrial and Mining Development Bank of Iran furnish two typical instances of a wide and varied coverage. According to Sec. 4(1)(a) of the Development Finance Corporation of Ceylon Act, 1955 the Corporation was established for the purpose inter alia of "assisting in the establishment, expansion, modernisation of private industrial and agricultural enterprises in Ceylon". Agricultural enterprise here is to be interpreted as "a large scale agricultural or live stock enterprise operated on a commercial basis".

Even when the development bank's chief interest is in industrial enterprises, a question may arise as to what the term 'industrial' encompasses. Does it cover only manufacturing or processing projects or extends to services and trades as well? The Indian Industrial Finance Corporation which was originally limited to industrial concerns engaged in the manufacture and processing of goods or in mining or in the generation of electricity or any other form of power has since through an amendment been authorised to finance the hotel industry with a view mainly to promote tourism. The IFC of India has provided loans and guarantees for deferred payments for five hotels for a total amount of Rs. 291.74 lakhs.[1] This amendment seeking to extend the activities of the Corporation to 'services' for the first time as distinguished from industry is rather curious. The authorities had always assured the legislature that the object of the IFC was to assist industries and not services.[2] But some banks like the Development Finance Corporation of Ceylon are not inclined to finance hotels because of the risks involved and the inadequacy of its funds. The IDB of Turkey also declines to finance hotels because of the fear of being exposed to political pressure. The financing of hotels however has not actually proved to be unremunerative as is shown by the activities of the Nacional Financiera of Mexico and the German Kreditanstalt in this field. The newly established Nepal Industrial Development Corporation has been authorised to finance the hotel industry and the types of industry financed so far by the Corporation include the hotel industry. Indeed the largest share of the loans appro-

[1] *See* Sixteenth Annual Report 1964, App. D.
[2] Legislative Assembly Debates, 10th February 1948.

ved by it has gone to the hotel industry, amounting to Rs. 7 million (Nepalese) of which Rs. 3.5 million has already been disbursed.[1]

Some banks have declined to finance service industries. The IDB of Turkey and the IFCI (except in the case of hotels) have not provided financial assistance to services and trades. But there are many other institutions in developed as well as undeveloped countries which have chosen not to limit the variety of projects they will assist. The Industrial Development Bank of Canada provides an interesting case illustrating how the extension of its scope from the strictly manufacturing sphere to non-manufacturing types of business has had a pronounced effect on its activity. Prior to 1956 all loans made by the Bank were to manufacturing businesses. A series of amendments upto 1961 has broadened the eligibility provisions of the original IDB Act in such a manner as to make all types of businesses eligible. In 1962 61% of its loans went in favour of non-manufactures compared to 9% only in 1955.[2] The British ICFC also provides its assistance to services, and transport, distribution, laundering, dyeing and other services figure in the list of businesses assisted by it. The Industrial Development Bank of Pakistan has been authorised to assist various kinds of transport as well as fishing. The scope of a development bank's business should not be unduly restricted. The extension of its scope into the sphere of trades and services has not proved to be risky nor has it affected the efficient working of the Canadian and British institutions. Such business on the contrary has proved to be highly profitable and has contributed to a substantial increase of their income. Some banks out of political considerations, like the IDB of Canada, have no doubt excluded from their purview such businesses as the manufacture of alcoholic beverages and the construction of race courses.[3] But like the hotel industry if the objective of the official development programme is to promote tourism for earning foreign exchange, there can be no valid theoretical objection to the financing of the construction of race courses or the setting up of plants to manufacture

[1] Fifth Annual Report of the NIDC 1963-64, p. 6.
[2] Submission of the IDB to the Royal Commission on Banking and Finance 1962.
[3] *Ibid.*

alcoholic drinks. They may be economically viable and financially sound projects.

In the field of industries again the issue may be raised as to whether the same institution should cater for the needs of both small and large scale industries. The small industries have special problems of administrative and technical guidance which may call for the services of a specialised institution. It may be difficult to mix in the same institution small and large loans. The peculiar problems of a small industry involved in the appraisal of its future prospects, uncertainty of continuity of management, the kind of security it may be able to offer, the absence of a corporate status have deterred many development banks from financing small industrial undertakings. The IFC of India confines itself to the financing of public limited companies and co-operative societies and is debarred by its statute to assist private limited companies, partnerships or firms owned and managed by individuals. A battery of regional development banks in the form of State Financial Corporations has been set up in every state in India to cater for the requirements of small industries, and their scope has been widened so as to include not only public limited companies but also private limited companies, partnerships and proprietary concerns. India is a country of vast size, the developmental needs of the different regions are diverse and small industries no less than the large scale industries have an important rôle to play in the country's economy. A pattern of development banking has been evolved to suit the special circumstances of the country. In Japan the Development Bank was originally in charge of small business, agriculture and fisheries. But it was subsequently realized that these fields were quite peculiar in view of their industrial structure and called for different types of finance Independent organizations have since been set up to cater for their financial requirements.[1] The Malaysian Industrial Development Finance Ltd. provides an interesting case of a development bank which has set up a Factory Development Department to provide factory mortgage finance to small industry and a hire purchase department for such industry.[2] Another instance

[1] Paper presented by the Japan Development Bank at the Second Regional Conference of Development Banks in Asia, Teheran 1963.

[2] Annual Reports and Accounts of the Malaysian Industrial Development Finance Ltd. 1960-61 and 1961-62.

is furnished by the Economic Development Board of Singapore, a government owned organization functioning like a Development Bank, which has a Light Industries Service unit, as a wing of its Technical Consulting Services Division. This special unit has been established in the EDB to provide technical and financial assistance to small industries.[1] Where each of the lending agencies has been allotted a specific sphere of activity and there is an integrated approach to the entire problem of industrial finance, the multiplicity of specialist institutions may not cause any harm.

But generally speaking a multiplicity of developmental and financial agencies having parallel fields of work and providing the same forms of financial assistance and perhaps of the same size would be likely to lead to waste, confusion, and ineptitude. In an undeveloped country experienced and qualified personnel are scarce, domestic savings are limited, and sound projects and good customers are not too plentiful. A proliferation of institutions competing for staff, finance and sound business, all of which are admittedly scarce would set one against the other and it is quite likely that each one of them as a consequence will be ill-organised, poorly staffed and inadequately or expensively financed. The Development Bank of Japan which covered fields other than large scale industry in its earlier stages but subsequently made them over to the care of specialist institutions in each of these spheres still considers the establishment of multiple financial institutions by government in the same field to be undesirable.[2] All these considerations suggest that it would be highly unwise to multiply the number of such specialist institutions even in a vast country like India. Apart from the IFC and ICIC and 15 SFC's mentioned above, the country has the National Industrial Development Corporation which has been assigned an ambitious rôle, the Refinance Corporation, the Small Industries Corporation and so on. In the circumstances the sponsoring of a new institution in the shape of the Industrial Development Bank of India in addition to the plethora of the existing agencies, particularly at a late stage in the process of her economic development, cannot be considered to have

[1] Paper presented by the EDB of Singapore at the Second Regional Conference of Development Banks in Asia, Teheran, 1963.

[2] Paper presented by the Japan Development Bank at the Second Regional Conference of Development Banks in Asia, Teheran, 1963.

been a wise step. An analysis of the charter of the newly established Development Bank will make it quite clear that most of the functions assigned to it are being ably exercised by the IFCI. The additional functions relating to development, promotion, research and economic surveys that have now been entrusted to the IDB could also be easily undertaken by the IFC if its statute were suitably amended and the necessary technical and economic organisation were built up. The IFC has been steadily assuming the rôle and responsibilities of a modern development bank and is already one of the finest institutions of its kind working in the underdeveloped countries today. It possesses a wealth of experience gathered during the 16 years of its operation and has a record of efficient working and valuable achievements. It is not comprehensible why the Government of India chose to form a new Institution altogether instead of allowing the IFC to evolve into a full-fledged development bank. The authorities across the border have displayed a greater degree of wisdom in having the IFC of Pakistan transformed into an IDB on modern lines, instead of setting up a new-fangled institution. We shall return to the point in a subsequent chapter.

Another issue involved in the question of coverage may also be raised here. Should the activities of the development banks be restricted to existing enterprises or should they extend to new enterprises as well? A development bank, if it is to assume its true responsibilities and fulfil its proper rôle, has inevitably to take a great deal of interest in new ventures. It has to pioneer and experiment in new fields of industrial activity in underdeveloped countries. The expansion and modernisation of established industries may be of as much importance to the economic progress of the country as new enterprises. But they have not the same acute problems relating to the availability of finance or technical and managerial staff as new firms or new spheres of economic activity. It is here that the development banks can usefully provide the initiative and assume the risks of pioneer industrialism. Most development banks are aware of this aspect of their rôle and in many cases their predominant interest as a matter of policy has been in new enterprises. Some banks which had in the initial stages confined themselves to established industries turned in later years to new

enterprises. Some of them again which were not originally permitted by their statutes to undertake the financing or establishment of new industries had them amended subsequently so that they could be authorised to undertake these activities. The IFC of India, the ICICs of India and Pakistan and the development banks of Chile, Turkey, Puerto Rico and Brazil have financed predominantly industries which were quite new. The Indian IFC for instance since its inception sanctioned 70% of its net financial assistance for new projects and only 30% for existing concerns for expansion, modernisation and diversification.[1] During the 10 years of the operations of the ICICI (1955-1964), of the 328 companies for which financial assistance was sanctioned, 156 were new undertakings.[2] Fifty-two per cent of the Nepal Industrial Development Corporation's financial support in 1963-64 went in favour of new industrial concerns while existing concerns received 48% of the total.[3]

Criterion of Absence of Alternative Terms and Conditions of Financing

The charters of development banks have generally laid down that they are intended to supplement, rather than supplant, the existing sources of industrial finance, such as commercial banks and other market institutions, and to provide their assistance only to cases where alternative financing is not available under reasonable terms and conditions. Thus the preamble of the Indian IFC Act 1948 specifically mentions that the Corporation is being established to make medium and long term credits more readily available to industrial concerns, particularly "in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable". In the case of the British ICFC the object is to provide finance to industrial enterprises where existing facilities furnished by banking institutions and the stock exchange are not readily or easily available. Similarly the main interest of the British FCI is in the types of business which show prospects of success but cannot be immediately financed through normal

[1] *See* Chairman's speech at the Sixteenth Annual General Meeting of the Corporation, p. 2.
[2] Tenth Annual Report of the ICICI 1963-64, p. 10.
[3] Fifth Annual Report of the Nepal Industrial Development Corporation 1963-64, pp. 5-6.

channels (e.g. the banks) and by capital issue.[1] Under Sec. 15(1)(b) of the Canadian IDB Act 1944-45 (as subsequently amended) the IDB is empowered to extend credit to an industrial enterprise, "provided that such credit would not otherwise be available on reasonable terms and conditions".

Where such provisions are written into the charters, development banks have to interpret them carefully. It is indeed a difficult task to decide whether the applicant concern would be unable to raise the necessary funds in the investment market through share or bond issues or from the banking system easily, readily and on reasonable terms and conditions. It is particularly difficult when the funds are required for a variety of purposes. Alternative sources of finance might be available for some of the purposes on terms which would be considered reasonable, if these comprised the entire scheme. But if the acceptance of a loan from such a source for the particular purpose for which the money was available were to make it more difficult or even impossible for the development bank or another lender to finance the rest of the programme, the overall result would not certainly be reasonable. In such circumstances the relevant statute needs to be interpreted in a flexible manner and the development bank may proceed to provide all the financing required, even though a portion of it taken by itself could be financed elsewhere on "reasonable" terms. Again, the duration and other conditions of a loan offered by another financing agency may appear to be "reasonable" except that the rate of interest quoted is higher than that charged by the development bank. The spread between the two lending rates will be an important factor to be taken into account by the development bank in deciding whether it should provide the loan. At the same time it is not being suggested that the prevailing rate is for that reason to be judged as "unreasonable". There is no problem for the development bank if it turns out that the funds needed by the borrower are unavailable elsewhere on any terms whatesoever. But the bank would have to form its own opinion on the matter if the applicant concern reports that funds are available not on terms which it considers to be reasonable. Another point to be taken into account by the bank in judging whether the funds are available

[1] Letter to the writer from the F. C. I. dated 27 February 1948.

or not on reasonable terms is the amount of the instalments of principal and interest required to be paid in relation to the anticipated net earnings of the enterprise and its ability to repay out of income. The required size of the periodic payments will clearly be affected more by differences in the duration of the loan rather than by differences in the interest rates. For instance, finance may be available elsewhere on what may be regarded as reasonable terms for 3 to 5 years; but the concern may take 5/7 years to develop and arrive at a stage where the net earnings may be adequate for the payment of the instalments. Credit for a longer term than 3/5 years would in such circumstances be a sound proposition from the financial point of view.

The Canadian IDB makes the following approach to satisfy itself that the credit applied for would not be available elsewhere on reasonable terms and conditions[1]:

(1) The applicant is required to certify that he is "unable to obtain loans from other sources on reasonable terms and conditions".

If the Bank cosiders that the overall requirements of the applicant can be met from some other source, he is requested to discuss his needs with any such source which he may have overlooked.

(2) The applicant has to agree to instruct his bank to give the IDB full information concerning his affairs and the IDB requests a banker's report on the applicant.

Thus the bank is given an opportunity to intervene if the situation appears to be one in which it could appropriately provide the medium or long term loan.

(3) In case the applicant concern is a subsidiary of a large concern or is controlled by an individual of wealth, the IDB presumes that the funds will be available from the owner and unless it can be specifically shown otherwise, the applicant will be told to obtain the required funds from that source.

(4) If the IDB considers that the applicant could raise the necessary funds by floating shares or debentures in the capital market, he will be expected to explore the possibilities of such

[1] Submission of the Bank of Canada to the Royal Commission on Banking and Finance 1962, B. 3-4.

a method of financing by getting into touch with an underwriting firm.

(5) If the applicant for financial assistance appears to come within the purview of such legislations as the Farm Credit Act or Small Business Loans Act, he will be directed to the relevant department of the government or the chartered bank.

(6) If the credit applied for is of such size and character which makes it appear possible for a mortgage lending institution to be interested in the proposition, the applicant will be advised to contact such a type of lender.

Similar procedures are followed by other development banks whose charters have rigidly defined that their assistance would be available to those concerns which are unable to obtain their requirements from the normal channels of banking or through the ordinary capital market. A careful analysis, however, of the loanee companies of some of these institutions, particularly in the case of the Indian IFC, will make it abundantly clear that many enterprises associated with big industrialists or under the management of reputed houses of managing agents have been recipients of large amounts of financial assistance even at times when the capital market was buoyant. It is difficult to resist the conclusion that they took advantage of the relatively lower interest rates of the IFC which were not always in conformity with the market structure of interest rates and borrowed large amounts interest on which, according to income tax law, could be treated as on expense account. It is however not being suggested for a moment that development banks should be interested in "financial lame ducks"; on the contrary, they should help ducks to "swim".

6

Loan and Investment Policies of Development Banks

Criteria Adopted For Making Loan Appraisals

Development banks are not only banks but also promotional agencies. Their dual nature calls for a marriage of banking and development criteria for guiding their lending and investment policies. There are many projects which may satisfy the attribute of being "bankable", but they may not satisfy the second criterion of "development" from the point of view of their priority and economic significance in the country's developmental programme. As has been well observed, all economically important projects are not necessarily bankable nor is every bankable project necessarily economically significant.[1] The resources of the development banks are not unlimited. They cannot devote these limited funds to strictly 'bankable' projects without paying any regard to their significance in the schedule of economic priorities in the country's development plan or to their overall impact on the economic life of the community. But at the same time they can ill afford to discard the banking criteria altogether and shut their eyes to the financial basis of the enterprises. Just as they have to watch continuously the financial results of their investment and lending, so they have to take into account the possible returns, which though economically and socially valuable will not be reflected in the balance sheets of the enterprises concerned. Some banks like the Malaysian IDFL have been expressly enjoined by their statute to operate on lines which would make the maximum contribution to industrial growth and create employment. Obviously they cannot restrict themselves to 'bankable' projects only. The policy of the Industrial Finance Corporation of India calls for a few comments in this respect. Until a couple of years ago it had given the topmost priority to the sugar in-

[1] **Shirley Boskey, *Problems and Practices of Development Banks*, p. 80.**

dustry in the co-operative sector, although sugar as an industry was assigned a very low priority in the country's Five Year Plans. The authorities of the Corporation seem to have been guided in their sugar policy by the security aspect of their loans which were fully guaranteed by Central and State governments. But the limited resources of the Corporation were thus locked up in investments in a low priority consumer goods industry. These funds could have been utilised with greater benefit to the economy by lending to such industries as would have created employment opportunities, produced import substitutes or earned foreign exchange.

In appraising the projects applying for financial assistance development banks have to examine their technical, financial, economic, commercial and organisational aspects. The points which are usually taken into consideration in this connection relate to

(1) the background, experience and capital structure of the applying company;
(2) the basic soundness of the project, the availability of raw material, power, labour, and managerial personnel, quality of equipment, etc.;
(3) the cost of the project and reasonableness of the estimates of the costs to be incurred both at home and abroad including appropriate provision for working capital and contingencies;
(4) the sources of finance, the contribution by the promoters, the relationship between debt and equity finance, security available for loans etc.;
(5) the size and prospective growth of the market, the nature of competition, the prospective prices, the degree to which the enterprise will have to depend on a protective tariff;
(6) experience and technical knowledge of those who will set up and operate the project;
(7) profitability of the project based upon examination of detailed estimates of production costs, sales and annual profits, the capacity of the enterprise to repay loans, to build up reserves and to pay reasonable dividends.

Some banks maintain an elaborate internal organisation of expert staff including economists, accountants, engineers, law-

yers and financial analysts. The Industrial Development Bank of Turkey and the IMDB of Iran have the projects studied by their own Engineering, Economic Research, Financial Analysis and other departments to find out their feasibility from different aspects.[1] But there are many banks like the Indian IFC which are either reluctant to incur the expenses of such an organisation or are unable to appreciate the valuable rôle it can perform in the appraisal of the project. They prefer to depend on government departments and the advice of a number of committees composed of experts drawn from the private and public sectors who have specialised knowledge of the particular industry. The Ceylon Development Finance Corporation utilises the services of the Ceylon Institute of Scientific and Industrial Research with which it is closely associated for the benefit of its clientele. The question whether a useful contribution will be made to the country's industrial development within the framework of its economic plan is also taken into consideration by most development banks. Thus the project is examined from various standpoints,—the kind and quality of the contribution the project will make to the industrial progress of the country, the economic prospects of the project, its technical and financial viability, the integrity and experience of its promoters, the initiative, foresight and the ability to forge ahead of its management,[2] the adequacy and competence of its technical staff and last but not least its profit earning capacity. The profit test is the conventional standard for measuring economic efficiency of an enterprise. A private development bank which is anxious to show results and has to build up reserves and provide dividends to the shareholders has to depend on the income from its loans and investments. If it wants to attract further capital, it has to inspire confidence in the minds of the would-be investors. In the circumstances the bank has to place major reliance on a strict profit test to be applied to the proposals for assistance. But development banks, particularly when

[1] Paper submitted by the IDB of Turkey before the First Regional Conference of Asian Development Banks, Bombay 1962 and Paper submitted by the IMDB of Iran before the Second Regional Conference, Teheran, 1963.

[2] The Ceylon DFC considers these qualities as the *sine qua non* of management in today's competitive and expanding economies. *See* Fifth Annual Report for the Year ending 31 March 1961.

they are public institutions, have sometimes relegated to the background considerations of a profitable return. Some of these like the Chilean Fomento Corporation or the Brazilian Banco Nacional are inclined to take into account the social and general effects of their investment rather than the strictly financial returns. The Malaysian Industrial Development Finance Ltd., a mixed institution, states in its Annual Report 1960-61 that its object is not to secure quick returns on its capital investment but to encourage sound industrial development.

The technique of appraisal of the medium and long term loans usually provided by development banks is entirely different from that of short term loans made by the ordinary banks. The development banks have to make an estimate of future development over a period of years. Long term loans are in their very nature subject to various hazards. The factors which determine the profitability of repayment of such loans are different from those pertaining to short term commercial bank loans. When appraising an application for a long term loan the development banker has not only to analyse balance sheets and profit and loss accounts in the same manner as a commercial banker in the case of a short term loan but has to give a more searching look into a long historical review of past earnings and balance sheet trends. Such a perspective is likely to give an idea of the shape of things to come. Apart from earnings prospects, careful appraisal has to be made of certain intangible aspects. Not only the competence of the present management but that of the successor management is of vital importance in respect of long term loans. Before the final maturity of the loan which may be 10-15 years or more, the concern may be deprived of the services of the present executive. Competitive conditions within the industry itself may have altered. Development banks in examining applications for long term loans from the motion picture industry, for instance, may have to look beyond the assets of the industry and its immediate prospects. They have to consider what will be the longrun effect of television on the industry, say in 10-12 years' time. Similarly financing of businesses which have a secular declining trend has to be scrupulously avoided. Thus for a long term loan the area of investigation has to be necessarily very extensive and appropriate criteria for assessing the financial,

economic and technical feasibilities of the project have to be adopted. The goods and services needed for the project comprising land, building, transport, raw material, power, fuel, water, plant and equipment and skilled labour relate to the technical aspects ; the earning capacity of the project, total output in relation to existing demand for it, export market potentialities, price level, production costs, idle installed capacity comprise the economic aspect ; realistic nature of the cost estimates, adequacy of the sources of finance contemplated, possible impact of the project on the level of production, sales, net earnings, borrowings, etc. and fixation of the time when repayments will commence and the total period of repayment in the light of the financial capacity of the borrower arising out of increased output and income indicate financial feasibility.

The interests of the development bank are sought to be protected not simply by taking tangible security but by the prescription of various conditions in the loan agreement. Indeed like the American commercial banks which engage in term lending, development banks may have to rely more upon the specific conditions governing the loan written down in the loan contract rather than upon the security itself. Under these conditions borrowers are required to agree to certain affirmative and negative covenants. Adequate insurance of assets, maintenance of an appropriate ratio of current assets to current liabilities, extension of facilities of access to the firm's books of accounts are some of the usual affirmative covenants. Agreement not to perform certain acts belongs to the group of negative covenants. Borrower concerns will not declare a rate of dividend higher than the stipulated maximum without the prior approval of the Development Bank. They will not borrow or incur further expenditure on capital account without the consent of the Bank. They will not seek to dispose of any item of assets mortgaged to the lending Bank without its sanction. Further they may have to agree to the appointment by the Bank of nominee directors on their boards either from among staff members or outside experts not associated with it ; and to accept restrictions on advances or guarantees or other financial commitments. They are also required to maintain adequate accounts, have them checked by independent auditors and present periodically to the Bank financial and operational reports.

The Indian IFC had limited the rate of dividend to be declared by a loanee concern on equities to 8% per annum which has now been raised to 10%. It was customary for the Corporation to nominate two directors on the boards of loanee concerns either from among its own officers or from businessmen, industrialists or retired administrators. This right however is being exercised today selectively under certain circumstances only. Except specified items of assets of a minor nature within prescribed limits, no item of assets mortgaged to the Corporation can be disposed of without its prior approval.[1]

Apart from these conditions stipulated in the loan agreement, the loan policies of development banks are sometimes governed by the overall capital structure of the applicant concern and its method of financing the proposed installation or expansion of equipment. The IFC of India takes into consideration the debt-equity ratio in the capital structure of the firm and insists on a 2:1 ratio as a condition of its assistance. The IDB of Turkey in extending loans to finance fixed investments sees to it that at least 40% of the fixed assets of the project is met by equity. The loan in any case does not exceed 50% of the investment. The Nepal Industrial Development Corporation expects that its customers should contribute not less than 50% and in special cases 40% of the cost of the project.[2] Ceilings of the assistance to be provided by development banks are sometimes laid down, the underlying principle being the diversification of the risks of investment. The IFC of India originally was not authorised to enter into any kind of financial arrangement with an industrial concern for an amount exceeding 10% of the share capital of the Corporation subject to an overall limit of Rs. 50 lakhs. The limit was subsequently raised to Rs. 1 crore.[3]

In the final analysis it should be observed that Development Banks should not as a rule subject the industrial concerns receiving or seeking their assistance to extremely rigorous enquiries or try to impose upon them strictest possible financial discipline. Generosity and prudence have to be carefully blend-

[1] Sixteenth Annual Report of the Industrial Finance Corporation of India 1963-64, p. 8.

[2] Papers submitted by the IDB of Turkey and the Nepal IDC at the First Regional Conference of Development Banks in Asia held at Bombay, 1962.

[3] Amendment Act of 1952.

ed. An excess of the former may fritter away valuable scarce resources without yielding an economic return ; an excess of the latter may hinder development.

Interest Rate Policy

A theory has sometimes been propounded that development banks should provide loans at rates of interest much lower than those prevailing in the money and capital markets of these countries. In India the doctrine of subsidised rates of interest for industrial loans to be provided by development banks has found a great deal of favour with the Board of Directors of many of these institutions. The IDB of Iran in its earlier stages seems also to have been obsessed with some such doctrine and is observed to have made loans at unrealistic rates of interest. The Development Finance Corporation of Ceylon has adopted the policy of quickening the country's pace of development through the lowest possible interest charges. In Turkey also the policy of providing capital at low cost is in favour. The EDB of Singapore charges a rate of interest for its loans which is lower than the current Singapore prime rate of commercial banks for clean overdrafts.[1] There can be no more harmful doctrine than that of lending at a subsidised interest rate being adopted as the policy of development banks. In the underdeveloped countries capital is scarce and the cost of capital should be related to this scarcity factor. The real cost of capital in such economies will not be reflected in these low rates and the whole pattern of investment will be distorted. The limited resources of capital cannot be allowed to be frittered away in making developmental loans at interest rates which are out of line with the prevailing interest rate structure of the countries concerned. The provision of financial assistance to a new industry at a rate of interest unrelated to the overall interest rates in the market will most certainly give it a false start. There is the grave risk of the industry being geared in its costing to interest charges which will not be available for replacement and expansion loans in the future. Such assistance at unrealistic rates is likely to attract "marginal" ventures which would not otherwise be financially or economically

[1] Paper presented by the EDB of Singapore before the Second Regional Conference of Development Banks in Asia, Teheran, 1963.

viable. Even when they have emerged out of the 'hot house' stage, they will not provide a fair return to their promoters. There will be an almost universal trend for industrial companies to have a highly geared capital structure, the debt-equity ratio being quite high owing to the low cost of loan capital. Such low rates of interest again may attract into the industrial field operators whose chief concern is to get hold of some cheap money to be utilised for various other purposes. The Development Bank in such circumstances will expose itself to a great deal of political pressure which it may not be able to resist. Where the resources of the entrepreneurs are limited and industrial promotion requires lower rates of interest, it is the government of the country which will have to provide special funds at subsidised rates or offer tax concessions.

A great deal of thought has to be given to the precise terms at which development banks should provide loans. Just as they should not quote rates low enough to be a gift, so they should not charge much too high rates to drive their would-be customers into the arms of their rivals. Apart from these basic considerations the interest rate policy of the development banks is governed to a considerable extent by the cost of the capital they themselves have to raise to finance their operations. These banks borrow from the government, the central bank, local institutional lenders and the members of the public. There has to be a spread between the rate at which they borrow and the rate at which they lend so that their administrative expenses are covered and particularly in the case of private institutions a fair return obtained on their paid up capital. When banks can borrow more cheaply than other institutions, for example when they obtain interest-free loans from government or obtain loans from foreign sources with a government guarantee, the question naturally arises whether the benefit should be passed on, at least partly to their clients. Sometimes the Banks undertake research studies and techno-economic surveys and provide the results to their industrial customers, and sometimes again they render technical services to them. The question is whether the rate of interest should be a composite charge covering the costs in these respects or it should be the cost of money only—the fees for the other services being charged separately or not being charged at all.

The spread between the borrowing and lending rates of some development banks is given below:

Japan Development Bank (1961)[1] [% p. a.]

	Lending	Borrowing	Spread
Transactions in National Currency	6.77	6.29	0.48
In Foreign Currency	5.65	5.41	0.24
Overall	6.61	6.05	0.56

Industrial Development Bank of Canada[2] [% p. a.]

During		Average Interest Rate on New Loans	Average Interest Rate on new debentures issued	Spread
Fiscal	1955	6	2.34	3.66
	1956	6.04	3.35	2.69
	1957	6.50	4.55	1.95
	1958	6	3.79	2.21
	1959	6.34	4.81	1.53
	1960	6.96	5.33	1.63
	1961	6.50	4.71	1.79
	1962	6.54	4.78	1.76

The IDB's lending rate is clearly steadier than the rate of interest paid by it on the debentures issued. The spread is greater than in the case of the Japanese Bank.

The relationship between the lending rate of development banks and the various other institutional rates of interest is given below in the case of some countries:

IDB of Canada[2] [% p. a.]

	IDB Rate	Chartered Bank Prime Rate	Farm Loan Board Rate	Rate on Conventional Mortgage
November 1944	5	4½	5	5
February 1951	5½	4½	4½	5¾
April 1952	6	4½	5	6
September 1956	6½	5¼	5	6¼
September 1960	6½	5¾	5	7½
September 1962	7	6	5	7¼

[1] Paper presented by the Development Bank of Japan before the First Regional Conference of Asian Development Banks held at Bombay, 1962.

[2] Submission of the IDB of Canada before the Royal Commission on Banking and Finance, 1962.

Relationship between the Lending Rates of the IFCI and ICICI and various other Institutional Rates of Interest

The average rate of interest charged by Indian scheduled banks on their advances has continued to rise since 1957. From 5.44% in that year the average interest rate on their advances rose to 6.41% in 1962. Again, while in September 1960, 50.6% of their advances were between 5 and 6% interest rate and only 15.2% were between 6 and 7% interest rate, in December 1961 and December 1962, 35.2% and 37.8% were between 6 and 7% interest rates. The IFCI rate on rupee loans (net) has increased during the period from 6% to 7%. The ICICI interest rate on rupee loans has been usually 6½%, though it has varied during the same period between 6, 6½ and 7%.

The relationship between the lending rates of IFCI and ICICI with the various institutional rates of interest is brought out in the table given below. It is abundantly clear that though there has been some tendency for their lending rates to move up along with the rising interest rate structure, the latter is not fully reflected in the rates charged by these two institutions on their loans.

Relationship between the Lending Rates of the IFCI and ICICI and the various other Institutional Rates of Interest

[% p. a]

	IFC Rate on rupee loans (with rebate) Net[1]	ICICI Rate on rupee loans[2]	Average Advance Rate of Scheduled Banks	Reserve Bank Rate *	Bond Rate 3%* 1986 or later
1957 (April)	6	6	5.44	3½	3.99
1958	6½	6½	5.59	3½—4	4.18
1959	6½	6½	5.64	4	4.13
1960	6½	6½	5.89	4	4.05
1961	6½	6½	6.33	4	4.06
1962	7	7	6.41	4—4½ 5 since Sept. 26, 1964 6 since Feby. 18, 1965	4.16

*Sources : Annual Reports of IFC and ICIC
Trend and Progress of Banking 1962
Reserve Bank of India Bulletin, August 1964

1. (a) July 1948—February 1952—5½% (Less rebate ½%)
(b) February 1952—October 1952—6% do
(c) October 1952—April 1957—6½% do
(d) April 1957—18th. July 1962—7% do
(e) 19th. July 1962 onwards—7½% do

Spread between the Lending and Borrowing Rates of the IFCI

The lending rate of the IFC since its inception in July 1948 till February 1952 remained at $5\frac{1}{2}\%$ with a rebate of $\frac{1}{2}\%$ for payment within the due date. In October 1952 it was raised to $6\frac{1}{2}\%$ which was subsequently raised to 7% in April 1957 and remained there till July 1962 when it was further raised to $7\frac{1}{2}\%$ with the usual rebate of $\frac{1}{2}\%$ for punctual payment. This increase in the lending rate was inevitable because the Corporation had to raise funds at higher rates of interest. The Government of India and State Governments were offering higher yields for their loans floated in the market. The scheduled banks had been charging much higher rates on their short term loans than the rate charged by the IFC for its medium and long term loans and an anomalous position was reached. The Bank rate had risen and the whole structure of interest rates was rising. The Corporation had issued its first series of bonds at $3\frac{1}{4}\%$ but had to pay $4\frac{1}{2}\%$, $4\frac{1}{4}\%$, 4%, $4\frac{1}{2}\%$ and $4\frac{3}{4}\%$ for successive issues according to the market conditions. It had to pay $4/4\frac{1}{2}\%$ interest for its borrowings from the Reserve Bank and 5% on those from the Central Bank.[1] Thus the spread between the borrowing and the lending rates is found to have varied between $1\frac{1}{4}\%$ and $2\frac{1}{4}/2\frac{1}{2}\%$ on the average.

In the ultimate analysis it must be observed that development banks are developmental agencies and as such have to assume risks not only of a different kind from that of ordinary banks, but also risks which these ordinary banks will not take. If they undertake the kind of risks they are designed to assume, they would inevitably incur losses on some of their investments. They must have an adequate income to build up reserves so as to cover these losses. In the circumstances they cannot afford to forego a profit on any of their investments.

Discriminatory Interest Rates

The final question with regard to interest rate policy is the principle of charging discriminatory interest rates by develop-

2. (a) May 1955—April 1957—6%
   (b) April 1957—August 1962—$6\frac{1}{2}\%$
   (c) August 1962 onwards—7%

—By kind courtesy of the IFCI and ICICI

[1] Speeches of the Chairman of the IFC at the Annual General Meeting of the IFC and its Annual Reports.

ment banks. Some banks are found to be inclined to charge relatively high rates of interest for loans to enterprises where according to them the risk is greater or the credit standing of the borrower is lower. Preferential treatment in the matter of the interest charge is often witnessed in the case of the favoured categories of industries. Indeed there is sometimes a schedule of interest rates with a spread of ½ to 1% applicable to different types of industry. Thus in Puerto Rico the rate of interest charged for loans extended to hotels and tourist restaurants is generally ½% point and that for commercial loans one percentage point above the rate for loans to industrial enterprises. In Mexico private borrowers have to pay one percentage point more than government borrowers. The IDB of Canada also sometimes makes loans at a rate of interest higher than its general rate. Loans involving relatively large amounts and above normal risk have carried a higher rate.[1] If a single flat rate were charged for all kinds of projects irrespective of their riskiness, it would amount to the making of a gift or subsidy to the riskier ventures.

There is however one advantage of charging a flat rate of interest. It will not expose the Bank to charges of discrimination in the same way in which a policy of varying interest rates will do. In India the IFC being a public institution does not consider that discriminating interest rates are feasible. Whenever the IFC wants to develop a particular category of industry, it relaxes the margin requirements for its loans instead of charging a subsidised interest rate. Thus in the case of sugar co-operative societies it has provided its assistance on a margin of 35% in place of the usual 50%. It may not also insist on personal guarantees of the promoters and directors of new undertakings, if they are people of sound business experience, proven entrepreneurial ability and known financial standing. In sharp contrast with the policy of the IFC in this respect, some State Financial Corporations in India, which are also public institutions, are known to have charged varying rates of interest in respect of certain categories of industries and with reference to the size of the loan amount. The Bihar State Financial Cor-

[1] Submission of the IDB of Canada before the Royal Commission on Banking and Finance, Canada, 1962.

poration charges 7½% with a rebate of ½% in the case of industries with fixed assets upto Rs. 5 lakhs and 8% in the case of all others. The Madras Industrial Investment Corporation charges 8% interest with a rebate of ½% for medium and large scale units but only 6% (without rebate) for small scale industries. The Assam State Financial Corporation's interest charge is 7½% for loans exceeding Rs. 1 lakh and 7% for loans below Rs. 1 lakh, with a ½% rebate in both the cases.[1] It is also interesting to note that a study group of the Reserve Bank of India on the working of State Financial Corporations has recommended a multi-structured interest rate policy for these institutions.[2] In the case of the ICICI the rate of interest charged on rupee loans has not been uniform ; it has varied, as noted above, between 6 and 7%, the majority of the loans bearing interest at 6½%.[3] Its interest rate policy can be more flexible than that of the IFC because like the latter it is not answerable to Parliament. The interest charges of the IFC for loans in foreign currency however are different from those for loans in national currency. Among the foreign currency loans again, rates of interest vary in respect of the country in whose currency the loans are made. While the rate of interest charged for rupee loans advanced by the Corporation at present is 7½%, (less the usual rebate of ½%) that for foreign currency loans (sanctioned out of dollar credit) is fixed at 8½% (less a rebate of ½%) plus ¼% to provide for incidental expenses and that (sanctioned out of credits in French francs and Deutsche marks) is fixed at 8½% with a rebate of ½% i.e. 8% nett.[4] The Development Bank of Indonesia provides an interesting instance charging varying rates of interest for financing self-liquidating development projects and existing industries, the former at 4% and the latter at 7½%.[5]

[1] The data have been kindly provided by the Industrial Finance Corporation of India in their letter dated March 2, 1965.

[2] *Annual Report on Currency and Finance*, Reserve Bank of India 1963-64, p. 65.

[3] Ninth Annual Report of the ICICI for 1963. Schedule of Rupee Loans as on December 1963, p. 27.

[4] Sixteenth Annual Report of the IFC 1963-64, p. 25.

[5] *See* Annual Reports of the *Bank Pembangunan. Indonesia* (Development Bank of Indonesia) for the years 1960 and 1961.

Security Policy

It is the usual policy of development banks to accept some security for their loans and to relate in some way the amount of the loan to the estimated value of the security offered. The usual securities offered and accepted are land, factory buildings and industrial plant and equipment. Deposits of government securities and guarantees of directors, promoters and banks are also accepted. The Indian IFC and the Nepal IDC require that all loans must be secured by a mortgage on the fixed assets of the concern such as lands, buildings, machineries and equipment. The Indian IFC has been permitted by its statute to provide loans and guarantees which may be secured by government securities, stocks, shares and bonds, bullion, movable or immovable property. But in actual practice it confines itself to mortgages of the fixed assets and does not accept mortgage on movables, such as raw materials. The EDB of Singapore normally requires a first charge on the fixed assets of the firm and does not insist on a charge on raw materials and finished products. The firm is thus left free to raise its working capital from the commercial banks.[1]

For purposes of determining the amount of the accommodation to be provided, it is usual to prescribe that adequate margins be retained in the valuation of the assets pledged, mortgaged or hypothecated to the institution. Thus in the case of the Indian IFC and the EDB of Singapore the practice has been to accept a uniform margin of 50% (though it is relaxable in some cases). The Industrial Bank of Iraq has laid down a schedule of ratios of the appraised value of the different kinds of assets offered as security. Thus the ratios are 50% in the case of factories, plants, machineries and tools, 75% against the value of government bonds, 60% against the value of land, buildings and bank guarantees. No machineries and tools however will be accepted as security unless there is a guarantor known to the Bank to be fit and creditworthy.[2] The Development Bank of Japan follows the established practice of demanding the usual security for its loans but it will not refuse

1 Paper presented before the Second Regional Conference of Asian Deyelpmont Banks, Teheran, 1963 by the EDB of Singapore.

2 Paper submitted by the IDB of Iraq at the First Regional Conference of Development Banks in Asia held at Bombay, 1962.

a loan simply on the ground that the applicant concern is unable to provide the proper security to the Bank at the time it makes the loan. It will suffice if the assets financed by the Bank's loans are given to it on the completion of the project.[1] The German Kreditanstalt will very rarely deny a loan for lack of security; for it considers that it is the unfavourable financial structure of the applicant concern which generally underlines the inability to provide adequate security.[2] With the IDB of Canada the form of security varies from one province to another and from one loan to another. The principal security is either a realty mortgage, a chattel mortgage or a mortgage bond. The personal guarantee of the owner in the case of an incorporated business for a portion of the loan may be required. The industrial borrower must maintain and assign to the Bank adequate insurance on the mortgaged assets.

The IDB of Burma, and the Indian and Pakistan ICIC's have been authorised to "lend money with or without security". But in actual practice some of them as the Indian ICIC insist upon a legal mortgage of all fixed assets and a charge also over the moveables, subject to hypothecation in favour of the loanee company's bankers for securing cash credit and overdraft facilities for working capital.[3] In the case of the recently established IDB of India the statute has not prescribed the nature and type of security that the Bank may accept as the basis of its loans, except that it has been prohibited to lend on the security of its own bonds or debentures. A high degree of discretion has been left to the Bank in these matters. The absence of rigid provisions in the statute is a welcome departure from the IFC in this respect. Too much importance need not be placed by a development bank upon the security to be accepted nor on the assessment of the security value. What is of crucial importance is the prospect of profitability of the concern and reasonable capacity to pay the instalments of principal and interest out of the income earned.

The quality of the management of the concern,—its character,

[1] Paper submitted by the Develoment Bank of Japan at the First Regional Conference of Development Banks in Asia, Bombay 1962.

[2] Fifteenth Annual Report of the *Kreditanstalt fur Weideraufbau* for the year 1963, p. 71.

[3] *The ICICI—A Source of Capital for Private Industry*, p. 17 (Published by the Corporation).

back ground and experience—is a relevant factor to be considered in this respect. Development banks like similar institutions providing term loans have to look beyond the value of the tangible assets of the enterprise pledged as security into the earning power of the loanee concern to protect themselves.

The Period of Repayment and the Amortisation Schedule

The loans advanced by the development banks are usually repayable in annual or semi-annual instalments spread over a number of years. The period has varied in practice from 4 to 15 years, although some of the banks are authorised to make loans for as long a period as 25 years. In the case of the IDB of Canada there is no specified maximum period for the repayment of its loans. But the Bank considers that repayment over more than fifteen years would be inappropriate for the Institution and undesirable for the borrower. In actual practice the average original period of repayment in the case of the Canadian Bank has varied between 65.1 months and 81.4 months during the period 1950-1962.[1] The maximum period for the loans so far allowed by the Indian IFC has been 15 years, and has ordinarily been 12 years. The period is much shorter than the 25 years provided under the Act. The Pakistan Industrial Development Bank envisages loans of a maturity not exceeding 20 years; while the Nepal Industrial Development Corporation can grant loans for a maximum period of 15 years.[2] Although the term loans provided by other lending agencies which the IDB of India will refinance have been prescribed a specific maturity of 3-25 years in some cases and 3-10 in others, no restrictive provisions relating to the maturity of its direct loans to industry have been written into the statute. Too short a period of repayment may reduce the period of risk for the development bank; but the loanee concern may not be able to earn such a surplus income as to be able to meet the repayments of principal together with interest which in a short period are inevitably large. On the other hand, development banks providing too long a schedule of repayments would be likely to face the risk of default. Much care and judgment have

[1] Submission by the Industrial Development Bank of Canada before the Royal Commission on Banking and Finance 1962, Table 13.

[2] *Nepal Industrial Development Corporation—An Introduction*, p. 5.

to be exercised by a development bank in determining the appropriate period of repayment for a loan. The anticipated earnings of the enterprise and the extent to which earnings will be required for purposes other than that of meeting the annual instalments,—such as for strengthening working capital, or for replacement and modernisation,—have to be carefully assessed. When the prime security consists of assets which quickly depreciate or have a short economic life, the factor must be taken into account. The ideal situation arises when the borrowers' own assessment of their ability to repay coincides with the estimate of the Bank itself ; but the borrowers may be apt to set much too high a value on their judgment.

In determining the period over which the repayments should be spread, the following points have to be taken into account by development banks:

(1) The period intervening between the inception of a project and the starting of its operations ;
(2) The period from the start of the operations till the concern is generating sufficient cash flow which will be adequate both for loan repayments and increasing working capital requirements ;
(3) The fixing of the amount and number of instalments of the loan repayments has to be tuned to the prospects of an early return on the entrepreneur's investment ;
(4) The advisability of capitalising interest in pre-operational and early exploitation periods.

Institutional Relations—Syndicate Operations

Collaboration of development banks with the commercial banking system and other financial institutions in the country will be of great assistance in making the best use of available funds for effective development work. The needs of a growing economy call for an increasing diversification of banking functions. Experience even in the mature countries like England shows that the banking system has been continually readapting itself to the changing needs of the economy and widening its horizon. Provision of relatively longer term finance for industry, subscription to its equity capital, underwriting of industrial securities and entering into the field of hire purchase finance

have been interesting lines of diversification of commercial banking business. Development banks may play an important rôle in encouraging the close co-operation of the banking system in financing both short term and long term financial requirements of industry. Thus commercial banks may co-operate with development banks in meeting the growing needs of working capital of industrial concerns which have been able to expand their activity as a result of assistance from these institutions. Promotion of underwriting business by groups of ordinary banks by themselves or in collaboration with the development banks will be a good practical approach towards the development of the capital market. From the point of view of strict theory commercial banks by the very nature of their liabilities are ill equipped for the task of long term financing or underwriting. They have neither the machinery nor the expertise for the appraisal of applications for such assistance and taking decisions. If they are at all inclined or are required by the needs of a development programme to embark upon industrial financing, either by providing term loans or by underwriting or purchasing shares and debentures, development banks are the chosen instrument through which they should operate. Viscount Bruce, Chairman of the British FCI, has made a similar suggestion to the British banks to make term loans to industry by operating through the FCI.[1]

The German banks' practice of working in syndicates or "consortiums" is well known. Such practice helps in distributing the risks of investment and in solving the problem of financing large requirements. The Japanese Industrial Bank used to work in close co-operation with other financial institutions. The British ICFC and FCI have also worked in several cases in close association with banks and issue houses. To avoid wasteful use of scarce financial and human resources development banks have to harmonise their operations with such institutions in respect of their loan and investment policy in conformity with the overall monetary-credit policies of the country. The Industrial and Mining Development Bank of Iran in its memorandum to the Second Conference of Asian development banks highlights the difficulties of industrialisation without the crea-

[1] Speech of Viscount Bruce at the Eleventh Annual General Meeting of the FCI on 26th July 1956.

tion of close collaboration between the banking system and development banks in a country like Iran where the practices and procedures of commercial banks have not yet adapted themselves to industrial financing.[1]

In the present times development banks in many underdeveloped countries have been acting in close co-operation with other sister institutions within the country. The IFC of India has financed some of the bigger projects jointly in partnership with the Life Insurance Corporation of India, the State Bank of India and the ICIC of India. Its association with the commercial banks has also grown closer. In one case it has acted in close collaboration with the International Finance Corporation, Washington, in setting up an alloy steel plant and in another with the Commonwealth Development Finance Company of U.K. and ICIC of India in financing a paper manufacturing concern. It has also agreed to finance industrial projects jointly with two State Financial Corporations.[2] The ICIC of India has also tried to arrange for participation of other financial institutions in projects assisted by it and to organise "consortia" for financing large projects. The Chairman of the Corporation has observed in a recent policy statement that it has taken up joint underwriting and other financing operations even in cases where it could have met all the requirements by itself and it was not necessary to invite other institutions to participate. "Such joint operations are considered to be in the interest of the ICICI as they help to reduce risk by spreading it."[3] Like the IFC the ICIC also has developed working relationships with other development financing agencies both within and outside the country. It has so far financed four projects jointly with the International Finance Corporation and eleven projects jointly with the Commonwealth Development Finance Company.[4] Industrial financing is fast developing as a co-operative enterprise in India. The

[1] Paper submitted by the Industrial and Mining Development Bank of Iran to the Second Regional Conference of Development Banks held at Teheran, 1963.

[2] Chairman's speech at the Thirteenth Annual General Meeting of the IFC 1961, p. 4. Also Chairman's speech at the Fifteenth Annual General Meeting 1963, p. 5.

[3] Paper submitted by the ICICI before the Second Regional Conference of Development Banks in Asia, 1963.

[4] *The ICIC of India—Ten years of Participation in Industrial Development* 1955-63, p. 23.

Development Bank of Japan as a rule makes loans in co-operation with local financing institutions in the form of supplementary financing.[1] In Singapore where there is no other industrial financing institution, the EDB collaborates with the local commercial banks by the disbursement and follow-up of its loans through the banks. In addition the EDB has tried to interest banks to help finance industrial ventures found by it to be economically and financially viable.[2] Besides these institutions the Industrial Development Corporation of South Africa and the government Development Bank of Puerto Rico are some of the development banks which have made some effort to co-ordinate their lending policies with those of other credit institutions.[3] An interesting case of active co-operation between a development bank and the commercial banks of the country is to be witnessed in the case of the German Reconstruction Loan Corporation (Kreditanstalt). The funds provided by the Corporation are usually passed through the banks which remain liable to it. The banks are considered to be best able to supervise the credits granted because of their closer connection with the ultimate borrowers as well as their local knowledge. A system of control was devised under which the banks were entrusted with the responsibility of verifying that the loan proceeds were properly expended.[4]

Follow-up and Supervision of Loans and Investments

An essential part of the work of development banks is the follow-up and supervision of their loans and investments. The object of such a follow-up policy is to determine during the period of construction whether the project will be completed on schedule and within the financial resources available; and during operation how sales and profits compare with original expectations; and to find out as early as possible whether the realisation of targets and expectations is being impeded and if so to take necessary remedial measures. In pursuit of this policy clients are required to furnish regular reports on physical and

[1] Paper presented by the Development Bank of Japan before the Second Regional Conference of Asian Development Banks, 1963.

[2] Paper presented by the EDB to the Second Regional Conference of Asian Development Banks, Teheran, 1963.

[3] Shirley Boskey, *op cit*. p. 112.

[4] Second Annual Report of the RLC (Kreditanstalt) 1950, p. 63.

financial progress, on production and sales and balance sheets and profit and loss accounts. Annual or even more frequent inspections are usual. The IFC and ICIC of India have adopted a rigorous follow-up procedure along the above lines, and have made a practice of carrying out regular inspection of the projects financed by them and obtaining periodical progress reports from them.

7

Organisational Structure of Development Banks

Departments of Technical Investigation and Economic Research

The primary objective of development banks is to foster the economic development of their countries. In this connection they have to assess the economic, technical and financial viability of the projects that seek their assistance day to day. The internal organisation of these banks should be such as to ensure the efficient and smooth carrying out of these tasks. Organised on the right lines, therefore, they have to be equipped among others with two essential departments, first, a liaison or technical investigation department and secondly, an Economic Research and Intelligence Service Department. A close liaison between the Bank and its industrial customers is imperative for the purpose of supervising the end-use of the loans, examining how far schedules of construction, expansion or installation are being conformed and making available for them the benefit of expert advice. Such a liaison between the technical staff of the Bank and the loanee companies will not only provide timely warnings whenever symptoms of danger are discerned but will also help in removing the causes of the danger itself. Some development banks like the Indian IFC, the Pakistan ICIC, the Ceylonese DFC etc. rely upon government departments in the absence of such organisations of their own for technical and economic services. But reliance on their own staff of experts rather than on outside consultants is of particular advantage to development banks for it allows for centralisation of the work of appraising proposals, investigating projects, supervising loans and following them up, within the Banks themselves. Bankers, engineers, economists, financial and investment analysts, lawyers etc. who should comprise the staff co-operate in bringing up a proposal to a stage where the grant of a loan may be considered and in following up pro-

jects after assistance has been provided. It would indeed be a rare application which would not call for special scrutiny from most, if not all of these experts. A great deal of time involved in the movement of relevant files through various government departments would be saved and the disposal of loan applications will be expedited. An elaborate technical staff need not be built up in the very early stages of the operations of a development bank. A nucleus staff might be maintained in the beginning; and the same could be expanded later on as the Bank gets into full stride. Similarly the establishment of an Economic Research and Intelligence Department will be of help in processing loans, in conducting feasibility studies relating to the proposed projects and carrying on economic and market research work. Such a department will also collect and prepare uptodate information on trade, industry, monetary, and financial matters, consumption, savings and investment. It would be misleading to suggest, as it has often been done in India, that development banks need not have such a department as the Central Bank of the country as well as various Ministries under government have their own Economic Research Departments whose fruits would be available to the banks. But the results of these departmental research organisations will not be available to the banks immediately nor will they be of the type and character which such banks particularly need.

Some specialist financial institutions like the British ICFC and FCI have built up these organisations from the start of their operations and have considerably strengthened them in recent years. Both of them have written to us to say how they are utilising the services of their liaison and technical staff to conduct periodical investigations into the affairs of their customer-concerns and to provide technical advice at all stages; and the services of the economists on their staff for the scrutiny of loan applications from an economic angle and for carrying on valuable research in all matters vital to the essential functioning of the projects which have been assisted. The Industrial and Mining Development Corporation of Iran began its operations with a complete specialised staff of experienced economists, bankers, engineers, financial and market analysts. The Pakistan Industrial Development Bank has also built up a simi-

lar staff of experts since its inception. The IDB of Turkey lays great emphasis upon professional staff in its organisation. To cope with the varied problems which an institution of this type has to face, it considers it necessary to have talents in the field of economics, engineering, finance and law. Its economic research department is entrusted with the task of carrying out economic surveys of the loan and participation projects and of the industrial sectors as well as the conduct of general economic and statistical research. Its financial department undertakes financial survey of the projects and carries out financial end-use investigations of borrowers and participations. Its engineering department similarly conducts the technical survey and end-use investigation of the borrowers and participations and provides technical assistance.[1] The ICICI is organised in several departments including Economics and Statistics sections which are manned by professional people having the requisite qualifications for their jobs.[2]

An examination of the organisational set-up of the Indian IFC reveals in sharp contrast a serious lacuna in the complete absence of a technical and an economic research department. Ever since the establishment of the IFC the present writer in the course of his writings and memoranda to the Board of Directors of the Corporation had drawn pointed attention to this organisational defect and suggested the setting up of these two departments. The authorities of the Corporation did not seem to have appreciated the value of this type of internal organisation and preferred to rely on advisory committees formed for different categories of industries and the technical and research departments of the various ministries under the Government of India. With the highest respect for the members of the advisory committees who are certainly top ranking experts in their respective spheres of activity, it must be observed that they are extremely busy people on their own account and can hardly be expected to give the time and thought to the large number of loan applications that are put up before them. They also represent rival companies in the same or similar lines of business. The bonafides of the experts in the

[1] Memorandum presented by the IDB of Turkey before the First Regional Conference of Asian Development Banks, Bombay 1962.

[2] Paper submitted by the ICICI before the Second Regional Conference of Asian Development Banks in Teheran, 1963.

advisory committees are certainly not being questioned but it is debatable how far it will be fair to the applicant companies to give out all the inside information to their rivals.

In spite of the pronounced apathy of the IFC for a specialised technical and economic staff of its own all the time since its inception, it is rather interesting to find the institution stressing the desirability of equipping development banks with a liaison or technical investigation department and a department of economic research and economic intelligence and having on their staff specialists such as economists, financial analysts and technical advisers, in the course of the memorandum submitted before the Second Regional Conference of Asian Development Banks (1963). "Such technical staff," the memorandum observes, "can not only be helpful in the scrutiny of a project to be financed but also in carrying out periodical investigations into the working of the enterprises after they have availed themselves of financial assistance....The Department of Economic Research and Intelligence could serve as a reservoir of upto date information on trade and investments etc." All this is reminiscent of the very language which the present writer had been using all these years in his writings and memoranda while arguing the case for setting up such internal organisations in the IFC. The memorandum further admits that in the IFC itself much remains to be done in this sphere, but assures that there is progressive thinking in this direction.[1] Happily there is evidence of this progressive thinking in the speeches of the Chairman in the last two annual general meetings. A technical organisation within the Corporation is being built up and the need for strengthening the staff of the IFC for technical and financial scrutiny of projects and for advice to entrepreneurs has been recognised.[2]

An important point for consideration with regard to the building up of a suitable technical staff for the development banks is the scarcity of qualified technical personnel in the underdeveloped countries where these institutions generally operate. Such staff may have to be imported from abroad at the outset

[1] Memorandum presented by the Industrial Finance Corporation of India to the Second Regional Conference of Development Banks in Asia, Teheran 1963, (pp. 8-10, p. 20).

[2] *See* speeches of the Chairman at the Fifteenth and Sixteenth Annual General Meetings of the IFC 1963 (p. 9) and 1964 (p. 8).

and adequate inducements may have to be offered to attract these experts from private industry in more advanced countries. The IDB of Turkey experienced great difficulty in finding the experts, particularly trained economists and experienced financial analysts at the start. The Bank had to import its general manager from the U.S.A. who was working as director of marketing in the World Bank and with regard to its staff of economists it had to train up young graduates within the Institution.[1] The IMDB of Iran had to face similar difficulties but utilised the services of the foreign experts employed in the Bank to train up locally recruited personnel. Some banks are known to have arranged special courses of study for their staff while others have offered scholarships for study abroad.

Management of Development Banks

The management of development banks consists of the Board of Directors and the general management. In the case of privately owned or mixed type of development banks, the Board members are generally elected by shareholders. The size and composition of the Board vary from one country to another. Thus while the number of members of the Board is seven in the IDB of Turkey, it is thirteen in the case of the IFC of India. In the case of the newly established IDB of Burma the number of directors shall be not less than three nor more than seven including the chairman. The Board of Directors chooses a chairman from amongst themselves but in the case of the government controlled institutions the appointment of the chairman is subject to the approval of the government. In such cases the government informally indicates its choice and the chosen person who is generally a top ranking government official is elected.

In a private development bank the government may not have a direct representation but is often represented indirectly. Thus in the IDB of Turkey one of the directors is elected by the shareholders from among a list of candidates submitted by the Central Bank. In the case of privately controlled banks where governments hold some portion of the share capital or have provided some sort of financial assistance as by making

[1] Paper submitted by the IDB of Turkey before the First Regional Conference of Development Banks in Asia, Bombay 1962.

an interest-free loan, they are usually represented on the Boards of Directors through their nominees. Thus in the case of the IFCI before the establishment of the Indian Industrial Development Bank, Government of India was empowered by statute to nominate four members on the Board, two of whom were from the Ministries and the other two non-officials, one of the latter being usually an academic economist. In actual practice the non-officials nominated by the government have taken an independent and objective attitude in Board meetings. According to the law establishing the IDB of Pakistan (1961) which is a mixed type of development bank, the central government will appoint six persons, of whom two shall be non-officials, on the Board out of a total number of 11 members. In the IDB of Burma the number of directors holding shares in the name of the government shall not exceed half the total number of directors (excluding the chairman) and shall be appointed by the President of the Union of Burma. The full time chairman of the Board shall also be appointed by the President (Arts. and Memo. of Association 78-79). In sharp contrast the Board of Directors of the Industrial Bank of Peru in which the government holds the majority of shares is composed entirely of private citizens,—businessmen, bankers, industrialists and lawyers.[1] It has been provided in the charters of the ICICs of India and Pakistan, which have received interest-free loans from government and the Ceylon DFC that there should be one government representative on the Board of Directors.

Development banks which are sponsored and capitalised wholly by government have their Boards almost invariably packed with heads of ministries or government departments. There is often a tendency in this connection to give representation to every ministry and as a consequence the Board becomes much too large and unwieldy. Sometimes legislators are also appointed on the Boards of these banks. The policy of filling up the Board with top ranking government officers and members of Parliament cannot contribute much to the efficient and imaginative working of these institutions. They have hardly any expertise for the kind of work in which development banks engage and are likely to have a bureaucratic or

[1] Shirley Boskey *op. cit.* p. 37.

a political outlook. For these reasons either as a matter of policy or as a result of statutory obligation governments have been careful to look for their directors outside the immediate range of their officers, and have nominated experts in various lines on the Board. The charter of the IDC of South Africa lays down that directors should be selected for their "ability and experience in business or administration", and prohibits the appointment of legislators as directors. The Chilean Fomento Corporation has the statutory obligation to give representation to engineering, mining, manufacturers and agricultural associations on its Board. The Industrial Bank of Iraq which is a semi-governmental institution is governed by a Board of Directors consisting of seven members all of whom are appointed by the Council of Ministers. The Directors however are not wholly drawn from amongst top ranking government officials and include specialists in the fields of economics, finance and industry.[1]

It will be interesting in this connection to study the composition of the Board of Directors of two development banks which are owned wholly by the nationalised central banks and are in fact their subsidiaries—the Industrial Development Bank of Canada and the newly established Industrial Development Bank of India. The Board of Directors of the Canadian IDB under Sec. 3 (1) of the Act of 1944-45 consists of the Governor and Deputy Governor of the Bank of Canada, Deputy Ministers of Finance and of Trade and Commerce and the 12 directors of the Bank of Canada appointed for three year terms by the Ministry of Finance. Of these only the Deputy Minister of Trade and Commerce is not a member of the Central Bank Board, while the Deputy Minister of Finance is a member of the Central Bank Board without the right to vote. The Canadian feature of the composition of the Board of Directors has been borrowed by the framers of the charter of the IDB of India. The general superintendence, direction and management of the affairs and business of the Development Bank have been vested in a Board of Directors which shall consist of "such persons as for the time being hold office as directors on the Central Board of the Reserve Bank" (Clauses 5 and 6 of the

[1] Paper submitted before the First Regional Conference of Asian Development Banks, Bombay, 1962.

IDB of India Act, 1964). The Indian Institution like its Canadian counterpart is a wholly owned subsidiary of the Central Bank of the country. The analogy regarding the composition of the Board however should not be carried too far for neither the Deputy Minister of Finance nor the Deputy Minister of Commerce and Trade is a member of the Board of Directors in the case of the Indian Reserve Bank or IDB. There is one point relating to such a composition of the Board of Directors which calls for serious comment. It is debatable how far the Central Bank Board possesses the necessary expertise for framing the policies and guiding the operations of a development bank.

In some of the banks, whether public, private or mixed, the device of an executive committee consisting of some members of the Board together with the Chairman or managing director has been adopted to facilitate the speedy execution of business. The executive committee, being a smaller body, can meet oftener and attend to the minute details of the loan and investment proposals. It is authorised to take final action on behalf of the Board or to act subject to ratification by the full board. In the case of the Iranian Industrial and Mining Development Bank the Board of Directors, composed of 15 members, meets only about twice a year. The powers of the Board have been delegated to an Executive Committee of six members, three representing Iranian and three non-Iranian shareholders. It meets at least once a month and governs the day to day activities of the Bank including the approval of loan and investment projects proposed by the management. There is danger however in arming the Executive Committee with too great powers. It may tend to become an absolute authority and usurp the functions of the Board of Directors which may merely rubber stamp the decisions of the Committee. In such circumstances the Board is apt to neglect its responsibilities and may not take the trouble of going into the merits of each case in detail. Indeed such charges had at one stage been levelled against the IFC of India which led to the appointment of an Enquiry Committee. The executive committee and the managing director were removed from the organisational set-up of the IFC as a result of the recommendations of this Committee. The Government of India also assured Parliament that it

was the Board of Directors which should assume the final responsibility for all the decisions taken by the Corporation. The Executive Committee was replaced by a Central Committee but it is before the Board of Directors that all proposals for financial assistance are placed for their consideration. The central committee meets once or twice in the year. In 1963-64 it met only once while there were eleven meetings of the Board.[1] A whole time salaried chairman has also taken the place of a part-time honorary chairman. The original set-up of the IFC which was embodied in the State Financial Corporations however has not been changed and it continues quite illogically.

A few observations may be made with regard to the practice of some development banks, particularly in India, to recruit their senior staff from among commercial bankers. Development banks are not ordinary banks and they require staff not inhibited by orthodox banking traditions. The permanent staffing of these banks and packing their boards with commercial bankers would be a serious mistake and would defeat the very purpose for which these institutions have been established. Economists, chartered accountants, managerial experts, financial and investment analysts and industrialists should be the main source of supply for directors and senior officers. The Chairman of the Board should not above all be governed by a banker's outlook. It is important for the institutions as well as for the people and Parliament of the country to realise that these are development banks, far removed from commercial banks and that they exist to assume risks which ordinary banks will not take and as risk takers inevitably they have to incur some losses.

A reference may be made in this connection to the controversy which has often arisen over the question of having active industrialists on the boards of development banks. There is an undercurrent of feeling that such directors would use their influence for obtaining considerable finance on liberal terms for their pet concerns, even though they may not be economically viable. It has been suggested in some quarters that there should not be any industrialist on the boards of these banks or the banks should not provide financial assistance to any enterprise in which one of the Directors may be interested as a

[1] Sixteenth Annual Report of the IFC 1963-64, p. 30.

shareholder, partner or director. The Development Finance Corporation of Ceylon is prohibited from transacting any business with such concerns except with the unanimous approval of other directors. In the case of the Indian IFC and the Pakistan ICIC, there is no bar to the provision of assistance to the concern in which one of the directors may be interested but he must disclose the nature of his interest to the Board when the proposal is being considered and he must not vote in that matter, and in the case of the Indian IFC he has to withdraw from the meeting where the application is being considered. It may be interesting to note that in the year ending June 30, 1963 the aggregate of loans furnished by the IFC in which its directors were interested in one form or other and which were sanctioned after the concerned directors became directors of the IFC constituted only 2.6% of the net total loans approved by the Corporation.[1] The Enquiry Committee on the Indian IFC had recommended that any industrial concern in which a director of the IFC was a managing director, director, partner or shareholder should not be eligible for the grant of a loan. But such a prohibition will have the effect of either excluding top ranking industrialists from the Board or preventing many well managed and economically sound enterprises from obtaining assistance from the Corporation. In both respects the procedure would cramp the industrial development of the country. The abuse of the Corporation's funds cannot be prevented by a rigid formula. It is only the growth of healthy traditions which will provide the necessary safeguards.

[1] Fifteenth Annual Report of the IFC 1962-63, p. 28.

8

Promotional Role of Development Banks

THE central feature of the functions of development banks is provision of finance. An analysis of the charters of development banks established in the postwar years shows that they have been empowered to finance or assist in financing industrial enterprises by:

(1) granting secured loans in national or foreign currency;
(2) subscribing directly to shares, bonds and debentures of industrial companies;
(3) guaranteeing loans raised by industrial concerns;
(4) guaranteeing deferred payments in respect of imports of machinery from foreign countries;
(5) guaranteeing loans from foreign financial institutions; and
(6) underwriting the issue of stock, shares, common and preference, and bonds or debentures by industrial concerns.

Although the hard core of the activities of development banks consists in the provision of industrial finance in these various forms, the rôle which these development banks play in contributing to national industrial growth cannot be assessed merely by the statistics of financial assistance provided by them. There are other bottlenecks, even more critical than financial, which stand in the way of a rapid rate of industrialisation. The removal of these other deficiencies is no less an important task for development banks than the provision of finance,—indeed under certain circumstances it may be more important. As a commentator has well observed, development banks have to set themselves the task of bringing together the elements essential

to modern industrial development, of providing the element that may be missing in a particular case and of "sparking the mixture".[1] From this point of view they have a part to play in an educational and disciplinary process. A half-baked inadequate proposal may be helped by them to be transformed into a well-conceived, well-planned, financially well-disciplined enterprise which is not only profitable to the investors but contributes as well to the growth of national income and maintenance of a high level of employment.

Thus the non-financial activities of the development institutions are no less essential than the financial. The non-financial activities relate chiefly to the development of the capital market, the promotion, establishment and management of enterprises and the undertaking of economic and technical research and feasibility studies and survey work in various fields.

The fostering of the capital market may be sought to be achieved by mobilising private savings which in an underdeveloped country are inevitably small, diverting them from the traditional pursuits and canalising them to investments of economic significance to the country. Through the process of selling their own shares and bonds to the public, through underwriting the issue of new industrial securities, and finally through selling investments from their own portfolio the banks can assist in the development of a capital market where it does not exist or is merely rudimentary. Where a small partly developed capital market already exists, it is for the development banks to foster and expand this market by removing all the obstacles to growth and providing new stimuli. It has been earlier shown that development banks by and large satisfy themselves before sanctioning a proposal that funds for financing it are not available on reasonable terms through the normal channels. Some of these institutions have imposed the condition that the applicant must obtain at least a certain portion of the required finance from the market. Some other development banks like the Indian ICIC and the South African IDC have followed the practice of selling shares and bonds out of their own portfolio from time to time and utilising the proceeds for new investments which may later on augment the

[1] Address presented by Mr. William Diamond, Director, Development Bank Services, International Finance Corporation to the Second Regional Conference of Development Banks in Asia held at Teheran, 1963.

market supply of securities. The Indian IFC has issued both shares and bonds of its own while others like the IDB of Turkey have been content to sell their own shares to the public. It needs hardly to be pointed out that the issue of their own shares and debentures by development banks obviates the difficulties involved in selling out the securities of their clients from their portfolio. But the sale of their own obligations does not necessarily broaden the capital market. It serves essentially as an instrument for augmenting the resources of the banks themselves.[1]

Underwriting of new issues by development banks has not been so uncommon a practice in underdeveloped countries as many observers would appear to believe. Especially in a country like India where the capital market is not so well developed as in U.K. or U.S.A. underwriting of new issues has now become a part of the established policies of the two Indian institutions, ICIC and IFCI. The IFC entered underwriting business only in December 1956 after several years of experience of working. But since then its underwriting operations have progressively increased and net sanctions were given to the extent of Rs. 12.31 crores upto June 30, 1964, made up of equity shares of Rs. 601.25 lakhs, preference shares of Rs. 386.39 lakhs and debentures of Rs. 243.00 lakhs. The amount which devolved on the Corporation up to the same year was Rs. 755.07 lakhs.[2] This was mostly due to the depressed condition of the capital market. It should also be remembered that underwriting as practised by development institutions in the underdeveloped countries is not only a marketing function but also an investing function. With the increase in the promotional nature of its activities the IFC stands poised to assume a more positive rôle of a development bank.

It must however be observed that a cautious policy has to be pursued by development banks in their underwriting activities. The fact that a development bank has agreed to underwrite an issue no doubt serves to provide an appeal to the investing public and helps to stimulate its sales. But in the event of the whole of the issue not being taken up by the market, the bank

[1] Shirley Boskey, *op. cit.* pp. 109-110.

[2] Sixteenth Annual Report of the Industrial Finance Corporation of India, 1963-64, pp. 17-18.

may be left with a fairly large amount, and may have to wait for a favourable turn of the market to be able to dispose of the securities. In this connection the IFC of India must have been severely handicapped in its underwriting operations by the provision in the original Act that it had to dispose of any shares it acquired as a result of underwriting within seven years irrespective of the conditions in the capital market. Sometimes development banks upon whose shoulders securities have devolved as a consequence of an underwriting operation may have to extend support to the issue by itself entering the market as a buyer. In such circumstances it may happen that the bank has come to acquire most of the shares which again will give rise to serious problems of management. It would therefore be advisable for development banks to confine themselves to the underwriting of securities issued by reputed and established companies and also arrange for "sub-underwriting" of their commitments whenever possible.

It may also be observed that underwriting will be meaningful only when there is a fair prospect of success for a public issue. Development banks should not have any objection to the holding of investments in the construction phases of the projects but they have to look forward to a time favourable for the disposal of their investments in the open market. They depend for their effective functioning upon revolving their funds invested in the equities of their customer companies. When the capital market is continuously sluggish and stagnant, development banks which have engaged in share underwriting operations may have to take up and hold considerable amounts of their underwriting commitments. This factor has to be carefully weighed by development banks when they undertake underwriting obligations. The ICIC of India which has been fulfilling a valuable rôle in fostering the capital market ever since its inception has been faced with a situation when as much as Rs. 122 lakhs out of Rs. 132 lakhs involved in nine share underwriting operations during 1964 have had to be taken up by it owing to the failure of public response to the fresh issues of equity capital in the current stagnant conditions of the investment market. It is hardly a satisfactory position

for a development bank like the ICIC.[1] In such circumstances appropriate fiscal measures to stimulate the capital market have to be adopted by the country's government in the interests of industrial growth.

In a developing economy the pool of experienced entrepreneurship is limited; there is a dearth of suitable technical personnel; and relevant statistical material is not available. In such circumstances the function of a development bank is to provide a variety of non-financial services relating to several aspects of the project, economic, technical and financial. Thus they are often found to undertake research and techno-economic surveys, promote and plan industrial and commercial projects for stimulating an entrepreneural spirit in the private sector, provide technical advice, lease out industrial sites, plant, equipment and buildings, and even train personnel. The Ceylon Development Finance Corporation is always ready to advise on reorganisation problems, accounting methods and marketing. Through its close association with the Ceylon Institute of Scientific and Agricultural Research it makes available to its customers the many and varied technical services offered by the Institute. This happy combination of finance and technical advice has benefited many new enterprises.[2] The South African Industrial Development Corporation set up a woollen textile mill itself with a view to interest private enterprises in this highly profitable field. The Puerto Rico Industrial Development Company interested itself in the hotel industry as private capital was not attracted to it and in many other industries provided industrial sites and constructed plant and equipment according to specifications. The Development Bank of Ethiopia considers as part of its policy the organisation of companies and even planning of their projects and studies in this connection ways and means of increasing industrial and agricultural production. The Industrial and Mining Development Bank of Iran provides technical advice not only to its own clients but also to others. For this purpose it has built

[1] Statement of the Chairman of the ICICI before the Tenth Annual General Meeting of shareholders, 1964, p. 8.

[2] Report of the Directors and Accounts of the Development Finance Corporation of Ceylon 1961.

up an organisation of experienced economists, bankers, financial and investment analysts.[1]

The newly established Nepal Industrial Development Corporation is intended not only to provide financial assistance in various forms but also technical advice including market research and training in industrial management and production techniques. The Nepal IDC is equipped with an Industrial Feasibility Division, a Productivity and Training Division and an Investment Promotion Division, besides the usual Industrial Finance Division. Through the Project Analysis Branch, the Industrial Feasibility Branch and the Market Research Branch of the first, the Corporation not only makes engineering and market appraisals of loan applications but also feasibility studies in respect of different industries. The second is concerned with the development of a preliminary consultative programme for industries in respect of employee training, productivity methods, etc. The objective of the third division is to develop, supervise and conduct the promotional campaigns of the Corporation in order to arouse effectively entrepreneur interest.[2] There has been an impressive expansion of the promotional activities of the NIDC in recent years. Demands for the technical assistance and investment advice offered by the NIDC have considerably increased while local investor-interest has shown remarkable growth.[3]

The objectives of the Industrial Development Bank of Burma (1961) as outlined in its charter are, besides the provision of finance, promoting, assisting and participating in the establishment, expansion, and modernisation of productive enterprises in the private sector and furnishing managerial, technical and administrative advice and assisting industrial enterprises to obtain managerial technical and administrative services. An important aspect of the activities of the EDB of Singapore consists in the promotion and development of projects and the provision of technical assistance. The investment promotion programme of the EDB is both general and selec-

[1] Memorandum furnished by the Industrial and Mining Development Bank of Iran before the Second Conference of Asian Development Banks at Teheran, 1963.

[2] *Nepal Industrial Development Corporation—An Introduction.*

[3] Annual Report of the NIDC 1963-64, p. 9. p. 12.

tive. The former is undertaken by the publication and distribution of material providing economic data for manufacturing in Singapore and information on investment incentives. The latter consists of economic and technical research by the EDB covering estimates of the potential market, sources of raw materials, transportation costs, manufacturing processes, amount of investment required, profitability of the enterprise, etc. Where necessary, full scale feasibility studies are also undertaken. Technical assistance is provided by the EDB through its Technical Consulting Services Division composed of the Industrial Research Unit, the Management Training Unit and the Light Industries Unit.[1] The newly established Industrial Development Bank of India has also been authorised to undertake research and surveys for evaluating or dealing with marketing or investments and undertaking and carrying on techno-economic studies in connection with the development of industry, to provide technical and administrative assistance to any industrial concern or person for promotion, management or expansion of any industry and to plan, promote and develop industries to fill up gaps in the country's industrial structure. The Pakistan Industrial Development Bank (1961), which evolved out of the PIFC according to the recommendations of the "Credit Enquiry Committee", has been endowed with wider functions but the promotion or direct establishment of industrial enterprises has not been expressly authorised by its charter. But it has been permitted to carry out survey and research of industries and since its establishment it has built up a large technical staff consisting of bankers, engineers, financial and market analysts, industrial economists, etc. to assist in the preparation of feasibility studies in conformity with the standard pattern of leading development banks in the world.[2] Thus the rôle of a development bank in an underdeveloped economy is conceived in a much broader perspective than that of a mere purveyor of loan and/or equity finance. It has to perform many functions which are carried out by various specialised agencies in developed countries. The development of the capital market and

[1] Paper presented by the EDB of Singapore at the Second Regional Conference of Development Banks in Asia, Teheran, 1963.

[2] Annual Report of the IDBP for the year 1961-62. Also Twelfth Annual Report of PIFC for the year 1961.

the building up of the financial infrastructure of the economy constitute important parts of the activity of development banks. They have to work no doubt on business lines but they cannot, as chosen instruments of development, be concerned primarily with quick or large returns on their investments: they have to take into account the economic and welfare return to the community. Thus stress should be laid not only on the banking aspects of their activity but also on its developmental aspect. They may be best regarded as the channel through which not only capital but also all the other ingredients of economic development flow under planned direction so as to irrigate and fertilise the arid regions and transform them into economically developed fruitful areas.

9

Central Banks and Development Banks

THE rôle of central banks in undeveloped economies is fundamentally different from that in the developed countries of Western Europe and North America. In the former group of territories what is required is not so much the regulation and control of a complex mature financial system but the promotion of the process of economic growth and capital formation. In other words the accent of a central bank's function is more on its promotional aspect rather than upon its regulatory aspect. The scope of the activities of a central bank in an undeveloped economy has to be related to the environment in which it operates. Many of the traditional functions of central banks would be unrealistic in countries where the credit and banking system is only rudimentary. The question is often posed, what should a central bank control in such an economy for there is no money market to control here? A central bank will therefore remain practically idle and be an expensive luxury. A central bank's function as the ultimate source of liquidity—the lender of last resort—is also likely to be limited in these countries. In most of these countries great international banks closely integrated with the banking system of the metropolitan countries are found to operate. When their liquid position is strained they will look beyond the country's economy to these outside markets for the necessary replenishment of their cash resources. Until the central banks could build up a position of relationship with these imperial banks which is closely similar to the traditional position of their counterparts in developed countries, their rôle as a lender of last resort will be severely limited.

From this point of view of the sophisticated functions and techniques of the orthodox type of central banks, the scope of their activities in undeveloped countries will undoubtedly be narrow and limited. But from another point of view, the rôle of

central banks in such economies will be quite varied and extensive. As a developmental agency, central banks have a strategic part to play in the long-run economic development of these countries. An important facet of this rôle is the building up of the "financial infrastructure" of future economic development. It has to adopt ways and means for quickening the development of a diversified institutional framework corresponding in nature to social overhead capital like transport and power. The chief elements of this rôle consist in creating local money and capital markets where these are non-existent and in further developing and strengthening these markets where they exist but only at a rudimentary stage, in promoting the growth of various types of financial intermediaries with their diversified financial assets and thereby facilitating the process of saving and investment, and in establishing an expert intelligence service with a view to seek out and highlight the crucial variables in the economic system.

Apart from building up an institutional and financial framework favourable to economic development, central banks in underdeveloped economies have to play a significant part in financing the economic development of these countries, directly as well as indirectly. When we speak of the central bank as taking a direct part in this financing, we are not suggesting for a moment that it should get itself entangled in the appraisal or administration of industrial or agricultural loans. Admittedly it does not possess the necessary expertise for the management of such loans or the requisite machinery for screening the various proposals that may be put up before it. Its proper rôle is to promote the establishment of specialised financial institutions such as development banks by participating in their equities and bonds, by making loans and advances to the institutions as the need and occasion arise, and sometimes even by owning them wholly. There are again various ways in which the central bank can take a share in indirect financing of the country's economic development. It can extend its guarantee to the payment of a minimum rate of dividend on their share capital and of the principal and interest of the bonds issued by the banks both in the domestic and foreign capital markets as well as to the loans granted to them by foreign institutions like the World Bank and its affiliates. It can make available its expert techni-

cal advice to the banks with regard to the timing of their bond issues. Finally, by the employment of selective control devices it can affect the pattern of bank lending in such a manner as to cause a diversion of bank credit away from the categories of trade and industries it wants to discourage and in favour of the preferred categories.[1] Central banks in almost all underdeveloped countries have in actual practice participated in the direct and indirect financing of their economic development by assisting the formation of development banks through equity participation either wholly or partly, by providing marginal assistance to the longterm lending institutions and by guaranteeing their obligations in the domestic as well as the overseas market. Thus central banks in developing countries like India and Pakistan as well as in the developed countries of Great Britain and Canada have been instrumental in promoting the establishment of a network of development banks by directly subscribing to their initial capital and in various other ways. The Reserve Bank of India has played a major rôle in promoting the institutionalisation of industrial and agricultural credit and building up a sound structure of banking. It owned originally 20% of the share capital of the IFC and 15% of that of the State Financial Corporations. It now holds the entire share capital of the newly formed Industrial Development Bank. The Bank of Canada is another instance of a central bank holding a hundred per cent share in the equity capital of a Development Bank. The Bank of England however took up a portion only of the capital of the British ICFC and FCI—viz. 33⅓% (£500,000 out of £15 million) in the case of the former and 30% in the case of the latter. While the Bank of England participated partially in the share capital of the ICFC and FCI, and the Bank of Canada wholly owned the Industrial Development Bank, the Australian Commonwealth Bank, as already observed, opened a special department of its own to perform the functions of a development finance institution. The Central Bank as the central arch of the monetary-banking structure of a country and being at the helm of financial management is the most suitable agency for broadening and deepening the institutional framework of development finance for promoting the country's economic development.

[1] E. Nevin, *Capital Funds for Underdeveloped Countries*, pp. 40-43.

Although the promotional rôle of central banks in developing economies is of more significance than the regulatory, yet there is no inherent conflict between the two rôles. The one may be super-imposed upon the other and the pursuit of developmental monetary policy may reinforce and strengthen the regulatory rôle of the central bank.

A brief reference may be made in this connection to the problem which the rise and growth of non-banking financial intermediaries like development banks, building societies, hire purchase finance companies, particularly when they are authorised to accept deposits, pose for the monetary policy of the central banks. According to the well known Gurley-Shaw analysis, the introduction of these NFI with a financial asset, which is a close substitute for money, increases the interest elasticity of the demand for money and so threatens to impair the effectiveness of monetary policy. Their approach is a break away from the conventional doctrine which distinguishes sharply between banks as creators and NFI as brokers of loanable funds. Both types of financial institutions create financial claims and both may engage in multiple creation of their particular liabilities in relation to any one class of asset that they may hold.[1] There may be important differences in the rôle of the two types of financial institutions in the process of credit creation. There may be more leakages in one case than in another. But destabilizing effects can be produced on the economy through the process of multiple credit creation by either type. The question is how to neutralise the threat to monetary control posed by the growth of these NFI. Gurley and Shaw have contended that the effectiveness of monetary control can be maintained by the extension of bank type of controls over these NFI. The banking system has to bear the full brunt of the monetary controls. Even when the system is behaving properly but the other financial intermediaries are expanding credit too rapidly, controls are implanted on the monetary system and not on the former. This is rather discriminatory against the commercial banks. The burden of control could be more evenly distributed among issuers of financial assets generally by bringing the NFI along with the commercial banks within the purview of central banking control. Steps may also be taken

[1] J. G. Gurley and E. S. Shaw, *Money in a Theory of Finance*, p. 202.

towards the equalising of competition between banks and deposit intermediaries by subjecting the latter to uniform ceiling rates on interest dividends paid to savers.[1]

The Gurley-Shaw approach has found an expression in the Radcliffe Report in England. But while Gurley and Shaw have proposed extension of central banking control over the NFI to counteract the threat to monetary policy, the Radcliffe Committee have "shuddered" at the idea of imposing any kind of control and concluded that the further growth of new intermediaries would allow the situation to slip continually from the grip of the monetary authorities. In a developed financial system a subordinate or an emergency rôle has to be inevitably assigned to monetary policy.[2] Some commentators have however observed that the rapid growth of nonbanking financial intermediaries does not impair seriously, if at all, the central bank's monetary powers.[3] Others again have argued that the effectiveness of monetary policy has been improved rather than weakened by the rise of the NFI. The growth of various types of financial intermediaries brings about a diversification of financial assets and with the increase in the demand of the investing public for different types of such assets, their ownership tends to be diffused. Thus with the increasing diversification of financial assets and diffusion of their ownership, the effectiveness of monetary control tends to improve. Changes in the interest rate may not affect investment and consumption expenditure significantly but there may take place what may be called a "valuation effect". The capital value of the financial assets held by all types of institutions, bank and non-bank, will be affected in the process and thus their liquidity will be impaired in such a manner as to affect their ability to lend or invest. There has also been a tremendous increase in the size of government debt and its distribution has been very wide in recent years. Through increases in the bank rate or open market sales the central bank is now able to reinforce the impact of its monetary control on various types of financial intermediaries.[4] Thus the

[1] D. A. Alhadeff, "Credit Controls and Financial Intermediaries," Art. in the *American Economic Review*, Sept. 1960.

[2] Report of the Radcliffe Committee, paras 487-529.

[3] Donald Shelby, "Some Implications of the Growth of Financial Intermediaries." Art. in the *Journal of Finance*, December, 1958.

[4] J. Aschheim, *Techniques of Monetary Control*, p. 131.

promotional and regulatory rôles of central banks are complementary. One tends to fortify the other.

In India a number of State Financial Corporations and some commercial houses to-day are accepting deposits or are actively canvassing for them by offering attractive rates of interest. State Financial Corporations in Madras, Kerala, Andhra Pradesh, Maharastra and Assam have accepted fixed deposits to the extent of Rs. 9.1 crores upto the end of February 1964. The Madras Corporation in addition has accepted short term and short notice deposits upto Rs. 50.2 lakhs.[1] Hire purchase companies and building societies have not grown on the same scale in India as in Western countries, but some of them are known to be attracting deposits of not insignificant amounts. The activities of the development banks, commercial houses and hire purchase companies in this sphere may soon pose a problem for the monetary policy of the Reserve Bank of India analogous to that presented to monetary control in the U.K., U.S.A. and South Africa. Policies of credit restraint applied to the banking sector only may not be effective in maintaining monetary stability which is essential for the process of economic growth. Time has indeed come for the monetary authorities to apply their mind to this aspect of the problem and consider whether the remedies suggested by the Gurley-Shaw analysis may provide the solution. The question of regulating deposits accepted by all types of non-banking financial institutions has fortunately attracted the attention of the government of the country and an Act specially designed for the purpose has recently been passed by the Indian Parliament. With the object of bringing the non-banking institutions, which are inviting deposits from the general public, within the purview of the Reserve Bank, the amending act has empowered the Bank to regulate or prohibit the issue of prospectus or advertisement by non-banking institutions, soliciting deposits from the public, to call for return and information relating to their deposits and to give them directions in respect of receipt of deposits and prohibit the acceptance of deposits by any such institution which fails to comply with its directives.

[1] *Report on Currency and Finance*, Reserve Bank of India, 1963-64, p. 64. The Reserve Bank of India is encouraging SFC's to build up their portfolio of deposits by offering interest at rates ½ % higher than those allowed by the Indian commercial banks (*RBI Bulletin*, Feb. 1965, p. 190.)

PART II

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

An Appraisal Of Its proposed Rôle

10

Development Banking In India

WITH the establishment of the Industrial Development Bank a new chapter is opened in the history of development banking in India. In the post-independence era a network of development banks has been set up, one after another. The activities of these development banks have related often to parallel fields, the forms of assistance provided have been more or less similar and the functions have often been overlapping. They have been playing an increasingly important rôle in their respective spheres and the contribution to the development of the country's industrial economy as reflected in the magnitude of the assistance furnished by them has been substantial. But the authorities have considered the existing financial arrangements for the expansion and development of industry to be still inadequate. In the context of the dimensions of the problem posed by the rapid process of industrialisation, the establishment of an entirely new institution with more comprehensive functions and larger resources than those of the existing institutions has been called for. The Industrial Finance Corporation, set up in 1948 by a special Act, was the first in the field. It was followed by the establishment under another central legislation of a network of State Financial Corporations spread all over the country and now 14 in number, the first of which was set up in 1953. An Industrial Investment Corporation, established earlier in Madras under the Companies Act in 1949, is now functioning as a State Financial Corporation. While the IFC and state financial corporations were all mixed institutions, owned partly by the central government and the Reserve Bank and partly by private institutional investors, in 1955 a wholly privately owned institution, the ICIC, was ushered in with the equity capital being provided by Indian and foreign investors, and with loan support from the Indian government and the International Bank. The National Industrial Development Corporation, a

wholly owned state institution, was subsequently formed and an ambitious rôle was assigned to it with emphasis upon developmental functions rather than upon purely financing functions. The last in the series of the specialist financial institutions was the Refinance Corporation which commenced functioning in 1958. Its rôle was somewhat different from that of the other institutions in that it was designed not to provide industrial finance directly but to refinance medium term loans ranging between 3 and 7 years and in some exceptional cases upto 10 years which commercial banks might have extended to small and medium sized industrial enterprises. The Industrial Development Bank may be said to have been born out of the varying concepts of the functions and activities of development banks underlying the formation of all these institutions. A close examination of the statute establishing the Industrial Development Bank will at once make it clear that it is an amalgam of the ideas that were incorporated in the IFC, ICIC, SFCs, NIDC and the RCI. The various forms in which financial assistance will be provided by it closely resemble those of the IFC and ICIC. Its field of activity will not be confined to public limited industrial companies only like the IFC and ICIC but will extend generally to all industrial enterprises incorporated under the Companies Act or any other law, such as partnerships or private limited companies as in the SFCs. It will cover not only all the various types of industrial enterprises and services which are within the purview of the IFC, viz. those engaged or to be engaged in the manufacture, preservation or processing of goods, in shipping, in mining, in the hotel industry, in the generation or distribution of electricity or any other form of power, but also many other services like the transport of passengers or goods by the road, or by water or by air. It will be interested not simply in the private sector but also like the NIDC in the public sector and in the basic or key industries as well. The accent of its activities will be not only on the financing but also on the development and promotion of industries like the NIDC by providing technical advice and planning, promoting and developing industries. Lastly, the refinancing concept has been borrowed from the RCI in that it will refinance the loans and advances granted to any industrial concern by corporations and institutions notified by the central government in

this behalf. It is also reminiscent of the Agricultural Refinance Corporation formed earlier under the auspices of the Reserve Bank of India with the object of providing long and medium term refinance/finance facilities for development of agriculture and plantations. Thus it is a mixture of all these various ingredients put in one bottle.

The Industrial Finance Corporation of India

The significance of the proposed rôle of the Industrial Development Bank may be usefully assessed against the background of the nature and volume of activities of the development banks already operating in India—the IFC, the ICIC and the NIDC on a national basis, and the SFCS at the state level. The earliest of these institutions, indeed the pioneer amongst them as already noted, is the Industrial Finance Corporation. The question of establishing a specialist institution for providing long term industrial finance had been before the country since the end of World War I. The Indian Industrial Commission appointed about this time gave a great deal of thought to the problem of financial facilities for industry and in their Report published in 1918 stressed for the first time the desirability of establishing "industrial banks". The Commission was very much in favour of a model of an industrial bank in India on the lines of the Industrial Bank of Japan. How far the Japanese Bank really conformed to the pattern of a development bank as understood in the present times is another matter and has been discussed elsewhere. The reason why the Commission turned to the Japanese model was probably the absence of an alternative, the Japanese institution being the only one of its kind at that time. Later on the External Capital Committee in 1924 is observed as recommending the formation of specialist institutions for coping with the problem of industrial finance in India. Subsequently the Central Banking Enquiry Committee came to be preoccupied with the problem. The Committee resuscitated the idea of establishing "industrial banks" which had originated with the Industrial Commission and made concrete proposals for the formation of Provincial Industrial Corporations on a regional basis. They did not however rule out the setting up of an All-India Corporation under certain conditions. But the reports of these Committees and Commissions lay half forgotten

among the dust and cobwebs of the uppershelves of the secretariat, and no action, except a half-hearted attempt in one or two provinces, was taken on their recommendations. The question of industrial finance once again came to engage the attention of the government and the people in India towards the end of World War II. The problem had now assumed not only a peculiar importance but an altogether new aspect. Reconversion of industry from a war-time to a peace-time basis, modernisation, extension and reorganisation of existing industries, establishment of industries in new and untried fields and planned development of industries as an integral part of the process of economic development of the country—all these factors tended to bring to the foreground the question of establishing a special institution for the adequate provision of financial facilities for industry.

The Industrial Finance Corporation was born in 1948 as a result. Although the Corporation was designed to be jointly owned by the Central Government, the Reserve Bank, scheduled banks, insurance companies and co-operative institutions, it functions as a public institution responsible to the Minister of Finance and through him to Parliament. It was sponsored by the government and established by an Act of the Legislature. Its board of directors was to consist of four (originally three) nominees of the Central Government. The Board itself in the discharge of its function was to be guided by such instructions on questions of policy as might be given to it by the government. If any dispute arose between the government and the Board as to what was and was not a question of policy, the decision of the government should be final and the government had the power to supersede the Board if it failed to carry out the instructions on questions of policy laid down by it.

The scope of the activities of the IFC under its charter was restricted to public limited companies and co-operative societies, state enterprises being excluded from its purview. According to the preamble of the Act establishing the IFC the objective as observed earlier was to make long and medium term credits more readily available to industrial concerns in India particularly in circumstances where normal banking accommodation was inappropriate or recourse to the capital market was impracticable.

The financial resources of the IFC are made up of the total paid up capital, bond issues, loans from government and the Reserve Bank and foreign currency loans. The breakdown for the year ending 30th June 1964 is given in the table below[1]:

TABLE

	In Crores of Rupees As on 30. 6. 1964	Per cent of Total Resources
Paid up capital	7.00	10.49
Reserves and Surplus	4.09	
Borrowings from the market by means of bond issues	28.24	26.70
Borrowing from Central Government	35.60	33.65
Foreign Credits	3.98	3.76
Repayment of loans	26.87	25.40
	105.78	

The amount was disbursed in the form of loans, underwritings and direct subscriptions to shares and debentures among its various industrial customers. The breakdown in respect of net sanctions and actual disbursements in these various forms is given in the following table[2]:

TABLE

Crores of Rupees

	No. of Operations	Net Sanctions	Disbursements
I			
Loans			
Rupees	425	134.29	94.23
Foreign Currency	60	16.89	4.05
Total	485	151.18	98.28

[1] Sixteenth Annual Report of the Industrial Finance Corporation of India, p. 25.

[2] *Ibid.*, p. 8. p. 23.

	No. of Operations	Net Sanctions	Disbursements
II			
Underwritings			
Equity Shares	61	6.02	1.90
Preference Shares	43	3.86	1.50
Debentures	2	2.43	2.28
Total	106	12.31	5.68
III			
Direct Subscription			
(Debentures)	1	1.82	1.82
Grand Total	592	165.31	105.78

Besides this direct financial assistance the IFC's net sanctions of guarantees in respect of deferred payments and loans from foreign financial institutions amounted to Rs. 31.47 crores of which Rs. 18.67 crores were actually availed of. Thus the total financial assistance sanctioned by the IFC since its inception down to June 30, 1964 in all these various forms amounted to Rs. 196.78 crores of which Rs. 124.45 crores were actually disbursed.

The assistance provided by the IFC in all these forms amounted to 32% of the total cost of new schemes, 38% of the cost of diversification into new lines, 43% of the cost of expansion and 63% of the cost of modernisation and rehabilitation in the case of existing undertakings.[1]

Net total financial assistance sanctioned and disbursed by the IFC during each of the last 16 years is shown in the table on the next page:

[1] Sixteenth Annual Report of the IFC, Table 10, p. 19.

TABLE[1]

Year ended 30th June	Net financial Assistance sanctioned	(Rs. in crores) Amount disbursed
1949	3.25	1.33
1950	6.15	3.41
1951	8.13	5.79
1952	11.33	7.57
1953	11.86	10.07
1954	15.96	12.89
1955	21.09	14.53
1956	35.15	16.73
1957	44.30	26.51
1958	52.80	34.84
1959	56.71	42.98
1960	75.23	53.65
1961	104.17	68.67
1962	124.44	80.14
1963	164.33	102.57
1964	196.78	124.45

It may be of some interest to estimate the contribution of the IFC to the gross capital formation for the private organised industrial sector. The net financial assistance sanctioned by the IFC as indicated above includes assistance sanctioned to the co-operative sector. To estimate its assistance to the private organised industrial sector, the amount extended to the co-operative sector has to be excluded. An attempt has been made in the following table to assess the rôle of the IFC in the gross capital formation for the private organised industrial sector by expressing its net financial assistance (exclusive of its assistance to the co-operative sector)[2] as a percentage of the gross

1 Fifteenth Annual Report of the IFC for the year ending June 30, 1963, p. 18. Table 14. *Also* Sixteenth Report of the IFC, p. 7.

2 Loans, guarantees and underwritings. Figures kindly provided by the IFC. Letter to the writer from the General Manager dated March 2, 1965.

capital formation (gross fixed assets plus inventories) for non-governmental non-financial public limited companies over the years 1955-1963[1]:

TABLE

	(1)	(2)	(3)
	In crores of Rs. Gross Capital formation for non-governmental non-financial public limited companies	In crores of Rs. Net financial assistance sanctioned by the IFCI (excluding the assistance sanctioned to the co-operative sector)	(2) as per cent of (1)
1954-55	158	4.15	2.63
1955-56	232	8.61	3.71
1956-57	286	5.39	1.88
1957-58	284	6.00	2.11
1958-59	191	2.46	1.29
1959-60	159	14.42	9.07
1960-61	287	24.23	8.44
1961-62	304	12.47	4.10
1962-63	309	28.27	9.15

It will be found from the above table that the percentage has steadily increased from 1.29 in 1958-59 to 9.15 in 1962-63 with a temporary set-back in 1961-62.

The IFC and the Co-operative Sector

Upto June 30, 1964 the total financial assistance sanctioned by the IFC for the co-operative sector amounted to Rs. 3785.62

[1] Source : Data relating to the net financial assistance sanctioned by the IFC to the private organised industrial sector excluding the *co-operative sector* have been kindly furnished by the Corporation. Data for gross capital formation for the years 1954-55 to 1957-58 have been obtained from *Savings in India* (NCER) and for other years from the *Reserve Bank of India Bulletins* June 1962, June 1963 and July 1964 (with appropriate blowing up) through the courtesy of the ICICI's Economic Research Department.

lakhs and represented 19% of the total net assistance sanctioned by the Corporation.[1] The diversion of such a large proportion of the Corporation's resources to the co-operative sector away from the private organised industrial sector for the assistance of which it was primarily designed is open to serious criticisms. Its assistance again has been confined mainly to sugar co-operatives, only 3 cotton spinning co-operatives and one vegetable oil co-operative being the recipients in other branches of the sector. Of these sugar co-operatives again, the bulk of its assistance went to a single State—the State of Maharashtra. The wisdom of concentrating in one kind of industry and that in a particular region is questionable. It does not satisfy the primary canon of industrial financing,—the diversification of the risks of investment. One wonders why the IFC rather than the co-operative banking system has been chosen by the government as the instrument for financing industrial co-operatives. With the institutional machinery of co-operative credit being more effectively developed under the care of the Reserve Bank of India, time indeed has come for the IFC to wean itself away from its absorbing interest in the sugar co-operatives.

Coverage of the IFC's Activities

The activities of the IFC cover a wide and varied field of industries. An analysis of the industry-wise distribution of the financial assistance rendered by the IFC in the form of loans, guarantees and underwritings shows that on June 30, 1964, the largest recipient of its assistance was the sugar industry with 22.3% of the sanctioned total, followed by the basic metal industries with 12.1%, the textiles with 11.8%, basic industrial chemicals with 9.4% and paper and paper products with 8.1%.[2]

It is interesting to note that at long last there has been a shift of the interest of the IFC away from the sugar industry in recent years. Upto June 30, 1963, financial assistance approved for the industry had stood at 32.3% as against 22.3% of the total on June 30, 1964. While during 1962-63 financial assistance sanctioned for the industry constituted 15.1% of the total, it was only 3.4% during 1963-64 with metal products topping the list with 18.7% followed closely by the textiles with 16.7% and

[1] Sixteenth Annual Report of the IFC 1963-64, p. 20.
[2] Sixteenth Annual Report, App. C (1), p. XIX.

basic industrial chemicals with 15.1%.[1] The table given below gives an analysis of the net financial assistance sanctioned for various types of industry as on the 30th June, 1964.[2]

TABLE

(Lakhs of Rupees)

TYPE OF INDUSTRY	No. of units	Amount				% of the whole
		Loans	Guarantees for deferred payments on machinery & for foreign loans	Under-writings	Total	
Food Manufacturing Industries except Beverage Industries—Sugar	69	4227·75	—	35·00	4262·75	22·3
Manufacture of Textiles-Spinning, Weaving and Finishing of Textiles	47	1891·73	368·81	64·50	2325·04	11·8
Manufacture of Artificial Fibres	6	381·98	—	31·00	412·98	2·1
Manufacture of Wood & Cork except Manufacture of Furniture	4	111·03	—	—	111·00	0·6
Manufacture of Paper and Paper Products	16	1044·21	452·89	100·00	1597·10	8·1
Manufacture of Rubber Products	5	339·00	39·62	34·00	412·62	2·1
Manufacture of Basic Industrial Chemicals including Fertilisers	15	1200·31	554·07	98·75	1853·13	9·4
Manufacture of Vegetable & Animal Oil & Fats	3	38·00	—	--	38·00	0·2

[1] Sixteenth Annual Report p. 12, Also Fifteenth Annual Report p. 15.
[2] Sixteenth Annual Report of the IFC for the year ending June 30, 1963-64. Appendix "C" (i) p. XIX.

TYPE OF INDUSTRY	No. of units	Amount				% of the whole
		Loans	Guarantees for deferred payments on machinery & for foreign loans	Under-writings	Total	
Manufacture of Miscellaneous Chemical Products	11	384·45	—	32·50	416·95	2·1
Manufacture of Glass & Glass Products	12	358·47	—	10·00	368·47	1·8
Manufacture of Pottery, China & Earthenware	10	332·10	—	15·00	347·10	1·7
Manufacture of Cement	12	874·00	—	60·89	934·89	4·7
Basic Metal Industries— Iron and Steel	4	203·00	—	30·00	233.00	1·1
Non-Ferrous Metals	5	602·00	1431·33	130·00	2163·33	11·0
Manufacture of Metal Products except Machinery & Transport Equipment	33	1124·67	126·81	186·50	1437·98	7·3
Manufacture of Machinery except Electrical Machinery	12	432·39	—	42·00	474·39	2·4
Manufacture of Electrical Machinery, Apparatus, Appliances & Supplies	27	579·36	—	102·50	681·86	3·4
Manufacture of Rail-Road Equipment	3	70·00	—	—	70·00	0·3
Manufacture of Motor Vehicles & Ancillaries	10	352·93	26·95	80·00	459·88	2·3
Manufacture of Bicycles	3	126·00	—	—	126·00	0·6
Miscellaneous Manufacturing Industries	9	65·40	—	—	65·40	0·3
Electric Light & Power	2	43·00	—	—	43·00	0·2
Electricity, Gas & Steam	6	109·28	—	—	109·28	0·6
Mining & Quarrying— (i) Coal	3	82·00	—	—	82·00	0·4
(ii) Stone Quarrying-Minerals	1	—	—	10·00	10·00	0·1
(iii) Petroleum & Natural Gas	1	—	—	*350·00	350·00	1·7
Hotel Industry	5	144·74	147·00	—	291·74	1·4
Total	334	15117·77	3147·48	1412·64	19677·89	100·0

*Includes direct subscription of Rs. 182·00 lakhs.

A brief review of the contribution of the IFC's financial assistance to the increase in the output or installed capacity of some of the more important industries may now be presented. Upto June 30, 1964 the Corporation provided Rs. 4262.75 lakhs to the sugar industry (69 units). The additional cane crushing capacity created in the industry as a result of the assistance has been estimated at 66,598 tonnes of sugar cane per day. In the cotton textile industry 45 units received a total assistance of Rs. 2241.04 lakhs and the additional capacity installed in the industry as a result amounts to 6.44 lakh spindles and 1390 looms. Of the 15 units in the basic industrial chemicals industries which received a total assistance of Rs. 1853.13 lakhs, 7 units have already gone in production. The additional installed capacity set up in the country with this financial assistance for some of the chemicals is given below:

Caustic Soda	61,800 tonnes p.a.
Chlorine (liquid)	21,030 ,, ,,
Soda Ash	23,100 ,, ,,
Sulphuric Acid	282,530 ,, ,,

In the field of basic metal industries the projects receiving financial assistance from the Corporation are in the construction stage.

In the paper industry the additional installed capacity set up in the country as a result of the assistance of the IFC to 16 units of the industry amounting to Rs. 1597.10 lakhs is estimated at 1.58 lakh tonnes per annum.[1]

The following table brings out the distribution of IFC's sanctioned assistance according to amount sanctioned for each individual firm.

[1] Sixteenth Annual Report of the IFC, App. F.

TABLE[1]

Distribution of IFC (Sanctioned) Net Financial Assistance (loans and underwritings) according to Amounts Sanctioned for each Individual Firm (Excluding Co-operatives)

(In Lakhs of Rs.)

As on 30th June, 1964

Size of Assistance	No. of Firms	Total Amount of Assistance	Per cent of total
0-10 lakhs	58	359.81	2.26
11-20	40	612.99	3.86
21-30	31	804.02	5.06
31-40	33	1206.24	7.59
41-50	16	742 80	4.67
51-60	13	715-40	4.50
61-70	7	449.29	2.83
71-80	5	378.33	2.39
81-90	7	597.68	3.76
91-1 crore	8	785.76	4.94
Exceeding 1 crore	41	9239.17	58.14
Total	259	15891.49	100

The average size of its assistance is found to be about Rs. 61 lakhs. Measured by the average size of its assistance it is probably true that the IFC loans were generally in favour of large firms. 58.14% of its net financial assistance has been concentrated in 41 firms, and the size of the assistance has exceeded Rs. 1 crore.

The Industrial Credit and Investment Corporation of India

The Industrial Credit and Investment Corporation of India, a wholly privately owned institution and an instance of the technique recently adopted by the World Bank for the development and financing of private enterprises in underdeveloped

[1] Sixteenth Annual Report of the IFC, App. E.

countries, has also been performing the rôle of a development bank in the country. It was created to encourage and assist private industrial investment in India. According to its Memorandum of Association the object of the Corporation is to carry on the business of assisting industrial enterprises within the private sector of industry in India. Any limited liability company in the private sector can approach the ICIC for assistance. It has not been practical to assist proprietary or partnership concerns. The ICICI equipped with a paid up share capital of Rs. 5 crores contributed by British and American institutional investors and Indian banks, insurance companies and the public and with an interest free loan of Rs. 7.5 crores from the Government of India and a line of credit amounting to $10 million from the World Bank started its career in 1955. It enjoyed some initial advantages over the IFC. It had access to foreign exchange finance and could rely upon its replenishment from time to time. Upto December 1963 it received five loans including the original one from the World Bank amounting to a total of $90 million (Rs. 4284 lakhs), a line of credit of $5 million (Rs. 238 lakhs) from the AID and four lines of credit aggregating DM 40 million (Rs. 476 lakhs) from the Kreditanstalt. The Corporation has further approached the World Bank for a sixth line of credit of $50 million (Rs. 2380 lakhs).[1] The lack of foreign exchange resources which had constituted a serious source of handicap for the IFC in its earlier years has thus created no problem for the ICICI. Its methods of financing have been more flexible and varied than those of the IFC in as much as it was empowered to provide not only loan capital but also equity capital from the outset. It was further designed to provide technical advice as well as various ancillary services to new entrepreneurs in different fields. The rigid rules applying to the kind of security to be maintained against the loans granted which operate in the case of the IFC have not inhibited the operations of the ICICI. There are no firm limits on the size of the enterprises ICIC is prepared to assist nor is there any minimum limit on the investment it will make.[2] Public accountability and the resulting uninformed and irrelevant criticisms in Parliament had consi-

[1] Tenth Annual Report of the ICICI, 1964, p. 10.

[2] *The ICIC. A Source of Capital for Private Industry*, p. 5 (Prepared by the ICIC)

derably cramped the development of the IFC as a true development bank and had been responsible for its much too conservative and hesitant policy in the earlier stages. As a private institution the ICICI has been fortunately free from the incubus of responsibility to the legislature.

Ever since its inception the ICICI has been playing a much more significant part in the capital market than the IFC. Apart from underwriting operations it has been trying to foster investment on healthy lines in a variety of ways. Whenever the capital market appeared to be sluggish it has not hesitated to step forward to maintain a continuous flow of funds. It has always been willing to stand by industry whenever there has been a difficult situation in the capital market. After the Chinese aggression and the declaration of emergency when the sources of funds in the capital market seemed to dry up, industry increasingly placed its reliance on the ICICI. It responded magnificently to this call from private enterprise in its hour of need. In 1963 when entrepreneurs were hesitating to undertake new projects and investors were not responding, the net assistance of the ICICI was a record one at Rs. 23.05 crores. To the established entrepreneur a development bank may be useful by and large as a source of finance. But to the new entrepreneur the development bank can provide not only finance but also various auxiliary services. "The ICICI does not regard itself merely as a provider of finance but rather as a financial partner, prepared to advise and assist at all stages in the planning and execution of an investment proposal." It has furnished multifarious auxiliary services to the new entrepreneurs in the fields of trading, engineering and management such as ensuring planning at the project level, and advising on an appropriate capital structure for the project, the need for foreign collaboration both technical and financial, the right kind of management, etc. It not only carefully scrutinises the details of every individual project but in consonance with its well-known follow-up policy keeps a close watch on the progress of the project. An important aspect of the rôle of the ICIC has been in the sphere of financing non-traditional metal based and chemical industries.[1] Thus the ICICI has not

[1] Statement of the Chairman of the ICICI circulated to shareholders for the year 1963, pp. 4-9.

hesitated to assume far riskier forms of financing than the IFC and has conformed to the general pattern of development banking elsewhere.

During the ten years of its operations 1955-1964 the total assistance sanctioned (net) by the ICICI amounted to Rs. 10229 lakhs of which Rs. 5431 lakhs were disbursed. The breakdown is given in the following Table.[1]

TABLE

Total ICICI Assistance and Disbursements 1955-64
(In lakhs of Rs.)

	Amount sanctioned (Net)	No. of operations	Amount disbursed
I. Loans & guarantees			
Rupees	2554	83	1651
Foreign Currencies	4897	224	2478
Total	7451	307	4129
II. Underwriting			
Ordinary shares	950	58	342
Pref. shares	475	31	200
Debentures	800	18	230
Total	2225	107	772
III Direct subscription			
Ordinary shares	342	46	319
Pref. shares	61	6	61
Debentures	150	2	150
Total	553	54	530
Total	10229	468	5431

The total amount of financial assistance provided by the ICICI as compared with that by the IFC may appear to be smaller but it should be remembered that the IFC has been in operation for 16 years whereas the ICICI has worked for 10 years only. It may also be observed that the underwriting operations of the ICICI totalled Rs. 22.25 crores sanctioned

[1] Tenth Annual Report of the ICICI for the year 1964, p. 15.

and Rs. 7.72 crores disbursed in 10 years whereas the IFCs operations were for Rs. 12.31 crores and Rs. 5.68 crores respectively in 16 years. As regards direct subscriptions, the ICIC has to its credit a sum of Rs. 5.53 crores sanctioned and Rs. 5.30 crores disbursed including Rs. 3.42 crores and Rs. 3.19 crores respectively in equities. The IFCs direct investments are a small amount of Rs. 1.82 crores in debentures both sanctioned and disbursed, there being no direct investment in equities or preference shares.

The following table brings out the growing share of the ICIC in the gross capital formation for the non-governmental non-financial public limited companies over the years 1954-55 to 1962-63[1]:

TABLE

	(1)*	(2)*	(3)*	(4)	(5)
	In crores of Rs.	In crores of Rs.	In crores of Rs.	(2) as per cent of (1)	(3) as per cent of (1)
	Gross Capital formation for non-governmental non-financial public limited companies	Net financial assistance sanctioned by the ICICI	Net financial assistance disbursed by the ICICI		
1954-55	158	3.54	0.76	2.24	0.48
1955-56	232	2.48	0.93	1.07	0·40
1956-57	286	5.64	2.37	1.97	0.83
1957-58	284	1.69	2.09	0.60	0.74
1958-59	191	7.56	3.21	3.96	1.68
1959-60	159	10.50	3.10	6.60	1.95
1960-61	287	11.30	5.95	3.94	2.07
1961-62	304	17.45	9.85	5.74	3.24
1962-63	309	23.05	10.76	7.46	3.48

The following table presents the distribution of the financial assistance sanctioned by the ICIC according to type of industry.

[1] Sources: Data for Capital formation from 1954-55 to 1957-58 obtained from *Savings in India* (N C E R) and for subsequent years from the Reserve Bank of India Bulletins by courtesy of the ICICI.

* Source: By courtesy of the ICICI in the letter from their Economist to the present writer, dated March 9, 1965.

TABLE[1]

Industry-Wise Distribution of ICICI's Financial Assistance

Nature of Industry	As on 31 December 1963		As on 31 December 1964	
	Net Amount Sanctioned (Rupees in Lakhs)	Percentage of Amount Sanctioned to total sanctions	Net Amount Sanctioned (Rupees in Lakhs)	Percentage of Amount Sanctioned to total sanctions
Automobiles and Cycles	579	7.0	601	5.9
Cement	451	5.4	642	6.3
Chemicals & Chemical Products	1328	16.0	1507	14.7
Electrical Equipment	777	9.3	882	8.6
Electricity, Gas and Steam	332	4.0	332	3.2
Food Products (other than sugar)	98	1.2	121	1.2
Glass, Pottery, etc.	408	4.9	415	4.1
Leather Products	8	0·1	8	0.1
Metal Products, Iron & Steel, Ferrous & Non-Ferrous	1894	22.7	2337	22.8
Machinery Manufacture (other than electrical)	731	8.8	1187	11·6
Oil Pipe Line	150	1.8	150	1.5
Paper & Pulp	551	6.6	677	6.6
Rubber Products	124	1.5	135	1.3
Shipping	216	2.6	225	2.2
Sugar	220	2.6	220	2.2
Textile	288	3.5	584	5.7
Wood, Cork & Hardboard	103	1.2	135	0.3
Miscellaneous	63	0.8	71	0.7

A careful analysis of the industry-wise distribution of the ICICI's financial assistance as given above reveals that in sharp contrast with the IFC, the sugar industry has been given very low priority, only 2.6% and 2.2% of the total sanctioned assistance having gone in its favour in 1963 and 1964 respec-

[1] Ninth and Tenth Annual Reports of the ICICI for the years 1963 and 1964, p. 31 and p. 37 respectively.

tively. Textiles also occupy a low position with 3.5% and 5.7% of the total. In both 1963 and 1964 the highest priority was accorded to metal products, iron and steel, ferrous and non-ferrous, with 22.7% and 22.8% of the total respectively. Machinery manufacture other than electrical rose to 11.6% in 1964 from 8.8% in 1963, chemicals dropping from 16.0% in 1963 to 14.7% in 1964. By and large consumer goods industries as compared with capital goods industries occupy a relatively lower position here than in the IFC.

State Financial Corporations

State Financial Corporations constitute the first experiment in the State field of organising institutional arrangements for providing industrial finance to small and medium sized industry. Fifteen such Corporations including the Madras Industrial Investment Corporation are functioning to-day in the different States. The SFC Act was closely modelled on the lines of the original IFC Act of 1948 and is therefore subject to the same limitations and shortcomings. Moreover, the legal framework has in effect introduced a straight jacket institutional pattern for all the States without reference to their peculiar needs and economic conditions.

The business which the SFCs may transact and the financial methods they may adopt are by and large similar in nature and coverage to those of the IFC. But there are some important departures from the IFC model. The definition of 'industrial concern' is much wider so as to include not only public limited companies but also private limited companies, partnerships and proprietary concerns. In the second place the State Finance Corporations are authorised to give guarantees and make loans and advances for a period of not more than 20 years as against the 25 years of the IFC.

Since the original SFC Act was passed, several amendments have been made as a result of the experience gathered in the working of these corporations. Some of these amendments have also been designed to bring them up in line with the IFC whose statute was being modified from time to time. But there are significant differences still present in respect of operational policies and organisational set-up between the Central and State institutions. Thus although like the IFC they have been

permitted to convert debentures subscribed or loans granted into stock or shares of the concern where an option was attached to these debentures or loans for being so converted, unlike the IFC they have not been authorised to subscribe directly to the equity shares of industrial concerns. They have been allowed to subscribe to 'right' shares only. The case for development banks being authorised to provide risk capital has already been argued at length and need not be reiterated. It is rather curious that while permission has been granted to the IFC in this respect, it should still continue to be withheld from the SFCs. Owing to inexplicable reasons, again, the major change in the organizational set-up of the IFC under which the part-time honorary chairman of the corporation was replaced by a salaried wholetime chairman, the managing director by a general manager and the executive committee by a central committee has not been incorporated in the constitution of the SFCs. Such changes would have certainly contributed to the improved working of these institutions.

The resources of the SFCs are derived from (1) their paid-up capital, (2) bond and debenture issues, and borrowings from the Reserve Bank, (3) deposits and (4) reserves. The percentage distribution of the shareholdings of all the SFCs together by class of shareholders is given in the following table:

	As on 31 March 1963 (% of total)
1. State Governments	46.3
2. Reserve Bank of India	17.5
3. Scheduled banks, insurance companies, etc.	32.5
4. Others	3.7
	100.0

It will be observed from the above table that state governments are by far the largest single class of shareholders. In spite of the state governments' guarantee of principal and dividend, however, the banks, insurance companies and members of the investing public have not been sufficiently responsive. The lack of ready marketability of the shares, the low rate of dividend and state management of these institutions may have been responsible for the limited appeal of the SFC shares to the prospective investors.

As regards the second source of funds comprising bonds and debentures, all SFCs except three, viz. those of Orissa, Guzerat and Jammu and Kashmir have issued bonds. The total amount of bonds outstanding including those of the Madras institution was Rs. 1850.62 lakhs in March 1963. The bond issues however have been made at an uneven pace over the years 1956-57 to 1962-63. The amount issued during the period totalled Rs. 1770.15 lakhs. The percentage breakdown of subscriptions according to class of subscribers as given in the table below reveals that the commercial banks with 45.8% of the total top the list followed by the Life Insurance Corporation with 26.4%. The shares of the State Bank, the Reserve Bank and governments are 7.1%, 1.7% and 0.6% of the total respectively.

TABLE

Percentage distribution of subscriptions to Bonds according to class of subscribers[1]

	Amount (Rs. lakhs)	% to total
1. Governments	10.41	0.6
2. Reserve Bank of India	30.21	1.7
3. Life Insurance Corporation of India	467.29	26.4
4. State Bank of India	126.43	7.1
5. Commercial banks	810.20	45.8
6. Co-operative banks	63.01	3.6
7. Insurance companies, investment trusts, other financial institutions	21.32	1·2
8. Other institutions	166.47	9.4
9. Individuals	74.81	4.2
Total	1770.15	100.0

As the bonds are guaranteed by state governments, there is no reason why the State Bank and the LIC should not extend greater support to the bond issues of the SFCs in the coming years. The SFCs have frequently run short of funds and they have to place increasing reliance on this particular source of finance. But without more institutional support it would be

1 Report of the Working Group on State Financial Corporations, 1964, p. 35.

well-nigh impossible for them to raise more funds in the market.

The bonds have to be issued after prior consultation with the Reserve Bank. Generally speaking, the SFC bonds are permitted to be issued only after the borrowing programme of the central and state governments has been finalised. By that time the market has been denuded of a great deal of cash being absorbed by flotations of government securities. In the circumstances the SFCs are seriously handicapped in raising the necessary resources for fulfilling their responsibilities. It is worthwhile to explore the feasibility of a suggestion that has been made in some quarters that the states, while drawing up their own annual borrowing programmes, might include the probable requirements of the SFCs and transfer such funds to them at the same rates of interest at which they had themselves raised them.

The maturity period of the bonds issued by the SFCs varies, generally speaking, from 10 to 12 years. Ideally the maturity pattern of the bonds should correspond with the time-pattern of the loans advanced by them. The Working Group on the State Financial Corporations which studied this question has shown that as a result of the recent trend towards longer maturity loans, the time pattern of outstanding loans may diverge from that for loans sanctioned for many years. The divergence between the patterns may disappear in the course of the next 15 years. In the light of the probable pattern that may emerge during this period, the Working Group estimates that about 25% of the total loans would be for periods upto 7 years. In the circumstances the flotation of bonds of relatively shorter maturity, say for periods of upto 7 years, would be clearly an advantage.[1]

As regards the outstanding borrowings of the SFCs from the State government and the Reserve Bank, it is observed that on 31st March 1963, no SFC had any outstanding borrowing from the State government but their borrowings from the Reserve Bank stood at Rs. 72.40 lakhs. Borrowings from the Reserve Bank for 90 days against trustee securities or for 18 months against special bonds or trustee securities are designed to serve either as "interim finance" or as "shock absorbers". Borrowing for 18 months is, however, statutorily limited to 60% of the

[1] Report of the Working Group, pp. 41-42.

paid up capital of a SFC. This limit may be relaxed in favour of the corporations in as much as unlike co-operative land mortgage banks they do not enjoy any access to the State Bank for temporary accommodation under the guarantee of a State Government.

Deposits may be accepted by the SFCs for a minimum period of one year (since 1962) as against the former period of 5 years. As already noted, some of the corporations have been accepting deposits from the public in recent years but the response from the public has been admittedly poor. Many SFCs seem to prefer deposits to bond issues as a more convenient and economical means of raising funds for their operations. The method may ensure a steady flow of funds, and also provide for an adjustment of the rates of interest to be paid to the changing money market conditions. At the same time it avoids not only the considerable expenses associated with bond issues but also part of the loss involved in placing on deposit with banks, till required, funds raised by way of bond issues, earning much lower interest than is payable on the bonds. The Working Group on the State Financial Corporations has stressed the need for the SFCs to raise at least a part of their resources through deposits. With a view to making the deposits with such corporations more attractive, the Working Group has further suggested that deposit receipts issued by them be made assignable to third parties, so that depositors can obtain advances against their deposits by assigning the receipts to the banks.[1] The Reserve Bank of India is also encouraging the SFCs to build up a deposit portfolio consisting of a number of small and medium sized deposits rather than a few relatively large sized deposits. The Governor of the Bank has revealed in a recent speech that the Corporations have been asked to adopt a rate structure which should generally be ¼% higher than what is allowed by the larger commercial banks.[2]

The theoretical arguments against the acceptance of deposits by development banks as a source of financing their operations have been clearly stated elsewhere and need not be repeated here. In practice there is hardly any development bank

[1] Report of the Working Group, p. 31.

[2] Address by the Governor of the Reserve Bank of India at the Eleventh Conference of the Representatives of the SFCs, 28 January 1965. (*See Reserve Bank of India Bulletin*, February, 1965, p. 190.)

which is known to have relied on this unorthodox and unsound method of raising its funds for making medium or long term industrial loans. The exhortation by the Reserve Bank and the Working Group amounts almost to an open general invitation to the SFCs to take steps to attract more deposits. Now that the minimum period has been reduced to one year only and the interest rate structure has risen as a result of successive increases in the Bank rate, a scramble for deposits, enjoying a government guarantee, would be extremely unfair to the banking system, would be disastrous for the future working of the SFCs themselves and would pose a problem for the monetary policy of the Reserve Bank itself.

The deposits (fixed) of the SFCs amounted to Rs. 9.1 crores at the end of February 1964. The Madras Corporation has continued to receive short term and short notice deposits, the amount of such deposits being Rs. 50.2 lakhs.[1]

The total reserves of the 14 SFCs, excluding the Madras Corporation, stood on March 31, 1963 at Rs. 32.44 lakhs to which should be added Rs. 6.78 lakhs by way of dividends foregone by the State Governments and the Reserve Bank. The combined amount of Rs. 39.22 lakhs constituted only 2.8% of their paid-up capital and an even smaller proportion of loans sanctioned.

The position in respect of the total loans sanctioned and disbursed (cumulative) by the SFCs including the Madras Corporation at the end of each year is shown below:

(In lakhs of Rs.)

	1959-60	1960-61	1961-62	% increase of 1961-62 over 1960-61
Sanctioned	2798	3719	5113	27
Disbursed	1824	2305	3134	27

The total amount of loans sanctioned and disbursed will be found to have increased by 27%.

The total amount of loans sanctioned and disbursed during the year 1963-64 stood at Rs. 17.9 crores and Rs. 12.5 crores respectively.

[1] *See Report on Currency and Finance*, Reserve Bank of India, 1963-64, p. 64.

The outstanding loans of the SFCs amounted to Rs. 1864.68 lakhs on March 31, 1963. Of this amount small scale units received only 28.0% as against 45.8% and 26.2% obtained respectively by medium and large scale units. The share of the small scale units would have been much smaller than 28% but for exhortations from various quarters.

The table given below brings out the industry-wise, (i.e. purpose-wise) breakdown of the loans and advances (outstanding) of the SFCs at the end of March 1963:

TABLE[1]

Major Industry-Wise Breakdown (in percentage) of Loans and Advances (outstanding) as at the end of March 1963.

Major industries groups	All 15 Corporations As at the end of March 1963 %
1. Food Manufacturing Industries except Beverages (Total)	18.23
(i) Sugar	(3.15)
(ii) Tea	(3.53)
(iii) Cold Storage	(4.54)
(iv) Others	(7.01)
2. Manufacture of Textiles (Total)	22.40
(i) Cotton Textiles	(18.96)
(ii) Others	(3.44)
3. Manufacture of Wood & Cork	1.67
4. Manufacture of Furniture, etc.	0.81
5. Manufacture of Paper and Paper Products	3.63
6. Printing, Publishing, etc.	1.98
7. Manufacture of Rubber Products	1.43
8. Manufacture of Chemicals & Chemical Products (Total)	7.84
(i) Basic Chemicals	(1.99)
(ii) Paints & Varnishes	(0.51)
(iii) Drugs & Pharmaceuticals	(1.70)
(iv) Others	(3.64)
9. Manufacture of Non-metallic Mineral Products	5.83

[1] Report of the Working Group on State Financial Corporations (Reserve Bank of India), 1964, Table IX, pp. 94-95.

Major industries groups	All 15 Corporations As at the end of March 1963 %
10 Basic Metal Industries (Total)	7.11
(i) Iron & Steel Basic Industries	(6.81)
(ii) Others	—
11. Manufacture of Metal Products except Machinery and Transport Equipment	4.18
12. Manufacture of Machinery except Electrical Machinery	8.46
13. Manufacture of Electrical Machinery	4.02
14. Manufacture of Transport Equipment	4.37
15. Electricity, Gas, Water & Sanitary Services	2.78

It will be observed from the above table that though there is a significant extent of diversification among the industries financed, the interest of the corporations has been mainly in favour of the "traditional group" of industries. Textiles and food manufacturing industries between them made up 40.63% of the outstandings, while chemicals, basic metal and metal manufacturing industries, paper and paper products and machinery, an assortment of "non-traditional" industries, accounted for 7.84%, 11.29%, 3.65% and 12.48% respectively.

In the context of the limited measure of diversification of the industrial structure achieved in the post independence years, it is clear that the contribution of the corporations to this achievement has not been at all significant. There has been a marked reluctance on the part of the SFCs to extend their operations to the field of newly developing industries. Their management has shown a preference for industries in which the processes of production are simple and do not call for a detailed scrutiny of the schemes at a high level of technical expertise. The financing of "non-traditional" industries sometimes involves relatively greater risks. The SFCs with their slender resources and overburdened with the load of subvention liabilities have been inclined to concentrate their operations in safer fields rather than venturing out into the unknown spheres. The complete absence of technical personnel on their staff and the legal ban on the direct subscriptions to the equity capital of their customers, the non-availability of foreign exchange resources,—facilities so highly valued by the newly

established units,—have obviously stood in the way of a significant shift of their interest away from the "older" and in favour of the "non-traditional" group of industries. The contrast with the industry-wise distribution of assistance sanctioned by both the IFC and ICIC in this respect is revealing. The removal of the statutory ban on equity financing, the creation of a regional pool of technical experts to be maintained by a group of SFCs whose services they may draw upon not only for themselves but also for would-be entrepreneurs, some provision of foreign exchange resources, the fostering of further co-ordination between the SFCs on the one hand and banks and other term-lending institutions on the other, and more concern with earning prospects and less with tangible security, and last but not least the development of a more imaginative outlook on the part of the management may induce the SFCs to concentrate more on industries which have a higher growth potential. Most of these Corporations are still in their infancy with an average age of about 7 years and they would obviously require a little more time to get into full stride.

The two tables given below embody the results of a recent study of the finances of 16 Central and State Financial Corporations (including the Madras Corporation) made by the Reserve Bank of India. The first presents a combined balance sheet of the 16 Corporations and the second a total picture of the sources and uses of their funds, all relating to the year 1962-63.[1]

TABLE I

Combined Balance Sheet of Central and State Financial Corporations, 1962-63.

(Lakhs of Rupees)

	1962-63
LIABILITIES	
A. 1. Paid-up capital (ordinary)	22,32
B. Reserves and surplus	3,51
2. Capital reserve	—
3. Special reserve	53
4. Other reserves and surplus	2,97

[1] *Reserve Bank of India Bulletin*, December 1964, pp. 1510-11.

(Lakhs of Rupees)

			1962-63
C.		Provisions	2,49
	5.	Taxation	1,95
	6.	Other current	53
	7.	Non-current	—
D.		Borrowings	84,19
	8.	Bonds and debentures	46,75
	9.	From Reserve Bank of India	72
	10.	From Government	24,75
	11.	From Refinance Corporation for Industry	1,69
	12.	In foreign currency	2,18
	13.	Others	8,09
E.	14.	Trade dues and other current liabilities	2,67
F.	15.	Miscellaneous non-current liabilities	18,23
	16.	Total	133,40
ASSETS			
G.		Cash and bank balances	6,56
	17.	Cash in hand	1
	18.	Fixed deposits with banks	—
	19.	Other bank balances	6,55
H.		Investments	14,08
	20.	Government and semi-Government securities	5,53
	21.	Shares	4,89
	22.	Debentures	3,67
I		Receivables	93,10
	23.	Loans and advances	91,71
	24.	Book debts	1,39
J.	25.	Advance of income-tax	1,25
K.	26.	Gross fixed assets	14
L.	27.	*Less* depreciation	4
M.	28.	Net fixed assets	10
N.	29.	Miscellaneous other assets	18,31
	30.	Total	133 40

It will be observed that two-thirds of the total assets were in the form of receivables, 11% in the form of investments, and cash and bank balances constituted 5%. On the liabilities side borrowings accounted for 63.1% of the total, borrowings from

the Reserve Bank constituting less than 1% of their total borrowings.

TABLE II

Sources and Uses of Funds of Central and State Financial Corporations, 1962-63.

	(Lakhs of Rupees)
	1962-63
SOURCES OF FUNDS	
INTERNAL SOURCES	91
A. 1. Paid-up capital (capitalised reserves)	—
B. Reserves and surplus	88
2. Capital Reserve	—
3. Special reserve	12
4. Other reserves and surplus	75
C. Provisions	3
5. Depreciation	1
6. Taxation	12
7. Other current	—9
8. Non-current	—
EXTERNAL SOURCES	25, 82
D. 9. Paid-up capital (fresh issues)	—50
E. Borrowings	19,97
10. Bonds and debentures	9,97
11. From Reserve Bank of India	38
12. From Government	5,00
13. From Refinance Corporation for Industry	72
14. In foreign currency	1,92
15. Others	1,99
F. 16. Trade dues and other current liabilities	46
G. 17. Miscellaneous non-current liabilities	5,89
18. Total	26,73
USES OF FUNDS	
H. Cash and bank balances	—3,95
19. Cash in hand	1
20. Fixed deposits with banks	—
21. Other bank balances	—3,96

(Lakhs of Rupees)

			1962-63
I.	Investments		5,66
	22.	Government and semi-Government securities	46
	23.	Shares	1,67
	24.	Debentures	3,53
J.	Receivables		19,11
	25.	Loans and advances	18,87
	26.	Book debts	24
K.	27.	Gross fixed assets	3
L.	28.	Miscellaneous other assets	5,88
	29.	Total	26,73

On the sources side almost the entire finance for the assets formation was provided by external sources, internal sources supplying only 3.4% of the total assets formation. The chief internal sources of finance were ploughed back profits and dividends foregone by the Reserve Bank and the State Governments on their share holdings. Borrowings constituted nearly four-fifths of their external finance, half of which was raised through bonds and debentures and half from government and other sources.

As regards the uses of their funds, more than 70% of the total assets formation is found to have been in the form of accumulation in receivables.

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The Industrial Development Bank of India

Ownership and Management of the I.D.B.

The Industrial Development Bank of India was established by a Bill introduced in Parliament on 27th February 1964 which was passed by both the Houses subsequently and which received the President's assent on 16th May 1964.

The IDB of India is a wholly owned subsidiary of the Reserve Bank of India. Development Banks have very often been owned wholly by government. Of the 70 banks operating today in the various undeveloped countries as many as 40 are found to be wholly government owned, the remaining 30 being either mixed or under complete private ownership. Among all these banks there is not a single institution which is wholly owned by the central bank of the respective country. The constitution of the IDBI thus appears to enjoy a position of lonely eminence in this respect. The "Notes on Clauses" of the Act suggest that the principle of complete ownership by the central bank has been adopted on the analogy of the IDB of Canada which is entirely owned by the Bank of Canada, the central bank of the country.[1] The analogy however is wholly misleading. Canada is a highly developed country, the Canadian Institution is not primarily concerned with the promotion of the country's development or with the financing of large-scale industries. According to the preamble of the Canadian IDB Act 1944-45, the IDB was being incorporated for effectiveness of monetary action through ensuring the availability of credit to industrial enterprises which might reasonably be expected to prove successful if a high level of national income and employment was maintained, by supplementing the activities of other lenders and by capital assistance to industry with particular reference to the financial problems of small enterprises. Thus

[1] Notes on Clauses *The Industrial Development Bank of India Bill,* 1964, (Clauses 5 and 6) p. 29.

the objectives of the Canadian IDB were mainly to finance small industries and increase opportunities of employment. The comprehensive rôle that has been assigned to the Indian IDB in promoting industrial growth in a rapidly developing economy far transcends the limited rôle of its Canadian counterpart. On the analogy again of Sec. 3 of the IDB Act of Canada the general superintendence, direction and management of the business and affairs of the Indian IDB have been vested in a Board of Directors which should consist of persons who for the time being hold office as director on the Central Board of the Reserve Bank. Like the Governor of the Bank of Canada who is the President of the Canadian Institution, the Governor of the Reserve Bank shall be the Chairman of the Board. The analogy again, it may be observed, is imperfect. For the Board of the Bank of Canada includes the Deputy Minister of Finance and the Deputy Minister of Trade and Commerce who automatically become members of the Board of the Development Bank. The composition of the Central Board of the Indian Reserve Bank is quite different and the two ministers referred to above have no place on the Board and therefore no seat on the Board of the Indian Development Bank. Both the institutions have Executive Committees but their composition and powers are not identical. In the case of the Board of the Canadian Development Bank the executive committee consists of the members of the executive committee of the Bank of Canada, the Deputy Minister of Trade and Commerce and another director selected by the Board. The executive committee of the IDB of India however will consist of a prescribed number of directtors. The Canadian executive committee seems to have wider powers for it is competent to deal with any matter within the competence of the full Board whereas the executive committee of the Indian Bank shall discharge only such functions that may be prescribed or delegated to it by the Board.

Financial Resources

The authorised capital of the IDB of India has been fixed at Rs. 50 crores but with the previous approval of the Central Government it may be increased to Rs. 100 crores by the Reserve Bank. The issued capital will be Rs. 10 crores which may be increased from time to time by the Reserve Bank with

the previous sanction of the Government of India. The entire issued capital will be subscribed by the Reserve Bank. Apart from the initial share capital of Rs. 10 crores, the IDBI will receive an interest free loan of Rs. 10 crores from the Central Government repayable after a period of 15 years in 15 equal instalments like the loans granted to the ICIC and Agricultural Refinance Corporation on more or less similar terms. The financial resources can be supplemented (1) by further loans from the Central Government on the usual terms and conditions, (2) by sales of bonds and debentures with or without State guarantee the amount of which need not bear any legally fixed ratio to the capital and reserves, (3) by advances from the Reserve Bank for periods upto 5 years on the security of commercial bills or promissory notes bearing two good signatures, (4) by borrowing on long term from the National Industrial Credit (Long term operations) Fund to be set up by the Reserve Bank, on the lines of the National Agricultural Credit (Long term operations) Fund, by making an initial contribution of Rs. 10 crores and such further sums of money as the Bank may contribute every year, provided that the annual contribution during each of the five years commencing with the year ending June 30, 1965 shall not be less than Rs. 5 crores, (5) by obtaining normal banking accommodation from the Reserve Bank for periods upto 90 days against trustee securities, (6) by accepting deposits of the maturity of not less than one year and finally (7) by the receipt of gifts, grants donations and benefactions from government as well as non-government sources. Thus, it is clear the sources of finance for the IDB will not only be far wider than those of the IFC but the amounts available will be considerably larger and the period of availability will also be longer. The resources at the disposal of the National Industrial Credit (Long-term Operations) Fund can be tapped; there is no statutory debt-equity ratio inhibiting the borrowing powers of the Bank; interim finance available to it will be for much longer periods as against the 18 months in the case of the IFC; and long-term credit against the security of bills and promissory notes denied to the IFC will be available for it.

While the funds available to the IDB in domestic currency seem to be ample and capable of further augmentation, the

IDB has not started with the benefit of any resources in foreign currency. Under clause 12(1) and (2) it has no doubt been authorised to borrow for purposes of granting loans and advances, with the previous sanction of the Central Government, foreign currency from any bank or financial institution in any foreign country with the guarantee of the government, if necessary. But as the IDB is in the public sector, the International Bank or its affiliates may not lend to it as they have done in the case of the IFC, ICIC and many other development banks. The American antipathy towards the proliferation of borrowing institutions is well-known. It may thus be difficult for the IDB to raise its requirements of foreign exchange resources. Such resources of the Reserve Bank again are much too meagre to be transferred to the IDB in any amount. The difficulties of the IFC during the first 12 years of its working owing to absence of foreign funds at its disposal have been stressed earlier. The Chairman of the IFC had at one stage revealed that he had been knocking persistently at the doors of the World Bank in the hope of persuading it to give a substantial loan to the Corporation in convertible currency for meeting the pressing needs of its customers.[1] The reluctance of the World Bank to provide loans to the IFC was mainly due to the preponderance of government directors on its Board and to the fact that the Board was governed by the directives of the central government on policy matters. The same deficiency in foreign exchange resources may prove to be a serious handicap in the operations of the IDB at least in the beginning. This limitation on the lending operations of the IDB arising from the lack of access to any foreign exchange has been frankly admitted by the authorities themselves.[2]

Objectives and Functions

The existing institutional framework for industrial financing was considered by Government as well as the Reserve Bank of India to be inadequately equipped for carrying the additional burden of financing industrial growth in the various sectors in

[1] Speech of the Chairman at the Twelfth Annual General Meeting of the IFC 1960, p. 5.

[2] Address given at a meeting of the Rotary Club of Bombay on February 16, 1965 by Dr. B. K. Madan (*See Reserve Bank of India Bulletin*, February 1965, p. 196.)

the coming years of the rapid process of industrialisation. It had to be re-adapted to the wider horizons as envisaged under the Fourth and subsequent Plans. The establishment of the IDB was thus called for, according to the Governor of the Reserve Bank who is the Chairman of the IDB's Board of Directors, not only to co-ordinate the operations of the various term-lending institutions but also to promote really large-scale enterprises which required the mobilisation of the resources of the several financing agencies including the capital market.[1] The rôle of the Bank has been envisaged by its Vice-Chairman, who is a Deputy Governor of the Reserve Bank, as the apex of an integrated structure of banking and financial institutions catering for the long term and medium term financial requirements of large scale and medium sized industry. It will not compete with but will complement and supplement the operations of other financial agencies.[2]

A close examination of the business assigned to the IDB shows that it will function first, as a co-ordinating agency, secondly, as a re-financing device, thirdly as an instrument of direct financing, and last but nor least, as a promoter of key and other industries. The statement of objects and reasons makes it clear that it has been designed to co-ordinate the activities of all the institutions which are or may be concerned with the financing of industrial development. As has already been pointed out, the existing agencies for the provision of industrial finance are frequently operating in the same field, with hardly any demarcation of their specific spheres of activity ; they may be competing with each other ; and their functions are also overlapping. It was considered necessary to establish a proper relationship among the various industrial financing institutions and to provide leadership to all of them by a central co-ordinating agency. But the IDB will have to co-ordinate the functions and working of institutions which are mature and have already gathered a great deal of experience in their particular fields and some of which can themselves assume the responsibilities of a co-ordinating agency.

[1] *See* Speech by Shri P. C. Bhattacharya, Chairman of the IDB on the occasion of the Bank's inauguration, Bombay, July 3, 1964.

[2] "Industrial Finance and the Industrial Development Bank of India", An Address given by Dr. B. K. Madan at a meeting of the Rotary Club of Bombay, February 16, 1965 (Reported in the *Reserve Bank of India Bulletin*, February 1965, p. 195, p. 196.)

The IDB of India has not however been conceived as a merely co-ordinating agency. It will function as a development financing institution as well. In its capacity as a financial corporation, it will (1) grant loans and advances to any industrial concern, (2) subscribe to, purchase or underwrite the issue of stocks, shares, bonds or debentures of any industrial concern, (3) be entitled to have at its option loans, advances or debentures converted into equity stocks and shares of that concern, if so desired, (4) guarantee, (i) loans raised by industrial concerns which are floated in the public market, or (ii) raised from scheduled banks, state co-operative banks, the IFC, the SFCs or any other financial institution notified for the purpose by the central government, (iii) deferred payments due from any industrial concern and (iv) obligations of any scheduled bank, state co-operative society, the IFC, the SFCs or any other financial institution notified by the central government in this connection, arising out of or in connection with underwriting the issue of stocks, shares, bonds or debentures of any industrial concern and finally (5) accept, discount or rediscount bills of exchange and promissory notes of industrial concerns.

As a refinancing agency, it will refinance (i) long-term loans repayable between 3 and 25 years which may have been granted by the IFC, SFCs or any other notified financial institution to industrial concerns, (ii) medium term loans repayable between 3 and 10 years granted by any scheduled or state co-operative bank to an industrial concern, (iii) loans repayable between 6 months and 10 years granted by banks and co-operative societies and financial institutions like the IFC, SFCs etc. to industrial concerns or group of industrial concerns in connection with the export of capital goods or other commodities from India. As a result of the refinancing functions assigned to the IDB, the existing Refinance Corporation for Industry will clearly become superfluous. Provision has been made in the statute of the IDB to enable it to acquire the RCI on a date to be fixed by the central government. The Corporation has already been acquired and converted into a wholly owned subsidiary of the IDB.

In the notes on the various clauses as appended to the Industrial Development Bank of India Bill at the time of its introduction into Parliament, an analogy has been sought to

be drawn between the proposed refinancing functions of the Indian Institution with those of the German Kreditanstalt fur Weideraufbau. It may be recalled that in respect of ownership and management a similar analogy was drawn with that of the Canadian IDB. The analogy of refinancing with regard to the Kreditanstalt is as misleading as it was in the case of ownership of the Canadian IDB. It cannot be sustained either by reference to the Law of the Kreditanstalt or its annual reports. According to Art. 2 of the Law which relates to Functions and Business, the Kreditanstalt shall have the function[1]:

1. of granting loans, in so far as other credit institutions are unable to raise the necessary funds, for the reconstruction or assistance of the German economy;
2. of granting loans in connection with export transactions of enterprises in the Federal Republic;
3. of undertaking guarantees within the framework of sub-paragraphs 1 and 2.

   The Corporation further has the power of granting loans which serve to finance projects deserving of assistance in foreign countries, especially in connection with development aid. It may also conduct other business only in so far as such business is connected with the performance of its functions described above. In this connection it may in particular purchase and sell claims and securities, and may enter into engagements on bills of exchange and promissory notes.

The functions and business of the Corporation as detailed in its charter do not include the refinancing of long or medium term loans granted by other financial institutions or banks.

From a close examination of the business of the Kreditanstalt it is clear that the coverage of its activities is very wide and includes domestic as well as foreign commitments. In 1963 its domestic (investment) loans were distributed among various sectors of the country's economy and covered farming and food industry, basic industries, manufacturing industries, trade and crafts, water conservation and supply, housing, transport

[1] Law concerning the Kreditanstalt fur Weideraufbau as on 18th October 1961. By courtesy of the Board of Management of the Institution.

and communications. Its foreign loans may be classified under the following heads (1) capital aid loans, project and non-project, (2) export financing (a) loans to foreign purchasers and (b) German exporters, (3) non-tied loans and (4) loans for establishments and participations abroad. An interesting feature of its capital aid loans is the financing of industries of developing countries through the intermediary of their development banks by providing them with loans in German currency. At the end of 1963 such loans had been committed to six development banks in four countries; and contracts with eight more banks were in the process of preparation.[1] Nowhere in its reports did we find any reference to the technique of refinancing on the lines proposed for the IDB of India. What is probably more correct is that the Kreditanstalt has used the banking system as the channel through which the funds have been passed to its various customer-concerns. In agreement with the banks concerned a system of supervision and rendering reports on the ultimate use of the funds has also been built up.[2]

Development Banks however are not purely financial institutions. As it has been observed earlier an important aspect of the functions of such banks relates to non-financial promotional and entrepreneurial activities. In line with development banks working in other underdeveloped countries the IDB of India will plan, promote and develop industries to fill the gaps in the country's industrial structure, provide technical and administrative assistance to any industrial concern or any person for promotion, management or expansion of any industry and undertake market and investment research and surveys and carry out techno-economic studies.

Development Assistance Fund

An interesting feature of the constitution of the IDB is the creation of a Development Assistance Fund with an appropriate initial contribution from the central government, the accounts of the Fund being maintained separately. The resources

[1] Fifteenth Annual Report of the Board of Management of the Kreditanstalt fur Weideraufbau, 1963, pp. 55-73. Kindly forwarded by the Board of Management of the Institute.

[2] Second Annual Report of the Kreditanstalt fur Weideraufbau 1950, pp. 63-64.

of the Fund will be made up of (1) the proceeds of loans, gifts, grants, donations or benefactions from government or other sources, (2) repayments or recoveries in respect of loans, advances or other facilities granted from the Fund, (3) income or profits from investments made from the Fund and (4) income accruing by way of interest on account of the utilisation of the Fund. The Development Assistance Fund will be available with the prior approval of the central government for loans and advances to industrial concerns to which other financial institutions and banks will not extend any assistance in the light of the standards or criteria which are normally adopted. Before giving its approval the central government will have to satisfy itself that such loan or advance is necessary as a matter of priority in the interests of the industrial development of the country. The industries which will be likely to obtain assistance from this Fund will be those which may require heavy investment or on which the rate of return is not expected to be sufficiently attractive. Loans, guarantees or other arrangements made out of resources other than those of the Development Assistance Fund do not require any previous sanction of the central government.

The Development Assistance Fund bears some analogy to the funds which governments have sometimes placed at the disposal of development banks elsewhere, such as counterpart, trust or other funds for supplementing their resources available otherwise. Some of these funds have been in the form of non-interesting bearing loans. In the case of the IDB of Turkey, however, a different formula has been used. Special Funds have been established out of the American Aid Counterpart Funds which are administered by the IDB on a management contract basis for a fee. These funds comprise (1) the *Marshall Plan Private Enterprise Fund* out of which long-term loans are made to private industrial enterprises for purposes within the scope of the IDB. Profits and losses earned by these operations belong to the Fund. (2) *Capital Participation Fund* to be used as equity participation in those private enterprises whose increasing requirements of working capital could not be met by issuing equities or by borrowing from banks and (3) *Industrial Exports Working Capital Fund* for making short-term loans for working capital to manufacturing and mineral

processing enterprises whose capital is more than 50% privately owned.[1]

It is not clear what criteria will be adopted by the IDB in extending its assistance to industrial concerns out of its other available resources. The charters of development finance companies, like those of the Indian IFC, the Canadian IDB and the British FCI and ICFC, have sometimes laid down the principle that their finances will be made available to industrial enterprises where normal banking accommodation is not easily or readily available or is inappropriate or where recourse to the capital market is impracticable. When it has been specifically provided that the resources of the DAF only can be employed for assisting such concerns and that also with the previous approval of the central government, doubts arise as to what standards will be adopted in the granting of loans and advances and guarantees from other resources of the Bank. There is also another point which is not very clear, viz. whether industrial enterprises eligible for financial assistance from this Fund will be debarred from the use of the other resources of the Bank.

Tax Exemption

A most significant feature of the IDB of India is the provision in its charter exempting the Bank from payment of income-tax, super tax, super profits tax or any other tax in respect of any income, profits or gains derived or any amount received by it. This exemption granted to the IDB is in sharp contrast with the liability of the IFC, ICIC and SFCs to income and other direct taxes and marks a distinct forward step. The existing institutions have suffered from the damping effects of the Government's fiscal policies which have considerably inhibited the fulfilment of the rôle for which they were designed. The high rates of income-tax and corporation-tax, the super profits and capital gains taxes have taken such a big slice out of their earnings as to preclude a reasonable return to shareholders as well as adequate allocations to reserve.

It is inherent in the functions of these institutions operating as development banks to assume risks. They have to build up substantial reserves against these inevitable risks. The existing

[1] Paper submitted by the Industrial Development Bank of Turkey at the First Regional Conference of Development Banks in Asia, 1962.

structure of taxation has been responsible for the low level of their reserves. For instance, the ICIC was able to set aside a meagre amount of Rs. 24 lakhs only from net profits by way of reserves during the first five years of its working. Institutions which are engaged in the financing of industry should be entitled to enjoy some tax concessions comparable to the benefits available to industrial enterprises by way of development rebate, additional depreciation allowance etc. so that they may set aside adequate amounts to reserve for possible capital losses. The chairmen of some of these corporations have hitherto pleaded in vain for the grant of some tax concessions so that they may build up more reserves and fulfil more effectively the function of risk-taking.

It is only in very recent years that the Government of India seem to have appreciated the case for giving some tax relief to financial institutions providing long-term finance for industrial development. As a result of the Finance Act, 1961 amending the Income Tax Act, such Corporations have become entitled to claim rebate in income-tax in respect of amounts not exceeding 10% of the total income of each year, if they are transferred to a special reserve fund, so long as the aggregate of the amounts so transferred does not exceed the paid up share capital of the institutions concerned. The IFC, ICIC and SFCs have been approved by the central government for availing themselves of the benefit of this rebate with effect from 1960. As a result of transfers of profits from the General Reserve Fund to the Special Reserve Fund the IFC was able to secure relief to the extent of Rs. 11.84 lakhs in its income-tax assessments for 1959-60 and 1960-61. The concession, though belated, is welcome. But it is much too small for building up an adequate reserve by way of an effective safeguard against possible losses. In the case of the SFCs it has been estimated that it will take a few decades for credits to the Special Reserve Account to add up to the paid-up capital, even on the assumption that the unprecedented increase in the profit rates in 1960-61 to 1962-63 would continue in the future.[1] The ICICI and the Agricultural Refinance Corporation have been given by the government special treatment of a different kind in the shape of

[1] Report of the Working Group on State Financial Corporations, 1964, pp. 138-139.

large long-term interest free loans. But the IFC and SFCs have been denied this special treatment. In the circumstances there is a special case for providing further tax relief for these institutions. The tax exemption limit in respect of credits to the Special Reserve Fund Account should, at least in their case, be raised from 10% to 30% subject to the overall limit as at present.

Development banks elsewhere unless wholly owned by government are generally subject to income tax. The Development Finance Corporation of Ceylon and the Pakistan Industrial Credit and Investment Corporation have to pay taxes. The income of wholly public owned banks is generally exempt from taxation, as in the case of the Development Bank of Japan which is not subject to income and corporation tax and is not required to pay stamp duty on documents and books.[1] The Government Development Bank of Puerto Rico is also exempt from taxation. The Industrial and Mining Development Bank of Iran which is not wholly state owned enjoys a tax concession on its profits upto a maximum of 6% of the Bank's paid-up capital and interest-free loan from the government. The Industrial Finance Corporation of India where the government and the nationalised central bank of the country hold 40.7% of the share capital did not enjoy any exemption from taxation during the first twelve years of its operation ; while the Industrial Bank for the Northern Region of the U.A.R. was granted a tax holiday for the first six years of its operation. The granting of tax privileges and concessions to financial institutions is not entirely unknown. For the purpose of channelling funds into specific industries and stimulating savings and capital formation, such concessions have been an interesting feature of the taxation structure of Western Germany and have been among others an important factor responsible for the spectacular, almost miraculous, economic recovery of the country in the post-war years.[2] For instance, while the general level of corporation tax was 45% of the net income, financial institutions established under public law and mortgage banks, proper

[1] Paper submitted by the Development Bank of Japan before the First Regional Conference of Asian Development Banks, Bombay 1962.

[2] *See* H. C. Wallich, *Mainsprings of German Revival* and Dr. Ludwig Erhard, *Prosperity Through Competition*, 1958, *in passim.*

and mixed, had to pay at the rate of 22.5% of the net income.[1]

Concluding Observations

The charter under which the IDB of India has been established is rather simple and short in comparison with the elaborate statutes setting up development banks elsewhere or the IFC, SFCs and NIDC in India. Provisions relating to rights in case of defaults, enforcement of claims, the period for which accommodation will be granted, the limit of accommodation, the kind of security to be accepted, realization of security, and finally the debt-equity ratio which are so meticulously laid down in such statutes have not been written down into the charter of the IDB. Whereas in the case of development banks generally, such as the Ceylon DFC, the Indian IFC and the IDB of Canada, from which the concept of central bank ownership and management has been borrowed, it is obligatory to establish a reserve fund, it is only optional for the Indian institution. The Bank has thus been allowed considerable discretion and freedom to exercise its judgment and pursue flexible policies.

It may be observed in this connection that development banking calls for an approach which is altogether different from that of a central banker. On the analogy of the Canadian IDB the Board of Directors of the Reserve Bank of India will be ex-officio directors of the Indian IDB. We are not at all questioning the competence of the Board of Directors of the Reserve Bank, their talent, experience and aptitude in their own normal banking sphere. But development banking requires a highly specialised expertise and the central banker does not admittedly possess this expertise to guide the destiny of such an institution or frame its operational policies. It is far from our intention to cast any reflection on the Board of the Reserve Bank, indeed we have the highest respect for them. But we simply want to stress, and that very strongly, that the tasks of a development bank are entirely different and the same Board cannot be expected to do full justice to different tasks at the

[1] Source: Consulate General of the Federal Republic of Germany. *West German Corporation Tax Law 1954* and *West German Income Tax Law* 1965. *See* also the present writer's *Structure of Taxation as a Factor in the Economic Recovery of Western Germany.*

same time. The arrangement laid down in the Canadian IDB Act has no doubt worked satisfactorily in the case of that institution, so we have been informed by its General Manager.[1] But as pointed out earlier, the Canadian Bank has not been assigned the same ambitious rôle as the Indian IDB and the problems of development in the two countries are widely different. Furthermore, the Central Bank of Canada is not saddled with the kind of responsibilities shouldered by the Reserve Bank of India.

Although the Central Bank in a developing economy fulfils an important rôle in the financing of economic development, it neither provides nor administers industrial loans—it does so by assisting the establishment of development banks. In the Indian case the Reserve Bank has not only established the Development Bank but the Board of Directors remaining the same it will in effect directly provide and administer the various kinds of financial and promotional services that have been assigned to the Bank. In underdeveloped economies the central bank undoubtedly has to step in and fill the gaps in the financial structure wherever they exist. But as the country's economy develops and becomes more mature, the central bank usually abandons its non-central banking functions and approximates itself to the true concept of a central bank as understood in the developed economies of Western Europe and North America. No better instance can be furnished than by quoting the case of the Australian Central Bank. The Commonwealth Bank of Australia which had long performed the functions of a central bank was equipped with a Rural Credits Department, a Trading Department and an Industrial Finance Department. But when the Commonwealth Bank was transformed into a full-fledged Central Bank in the shape of the Reserve Bank of Australia in 1959, the legislative intent of the charter establishing the Reserve Bank was to provide exclusively for central banking functions. That the Bank has been intended to concentrate on central banking functions proper is evident from the separation of the Industrial Finance Department and the Trading Bank Department from it. The continuance of the Rural Credits Department even after the reconstitution of the

[1] Letter to the present writer from the General Manager of the Industrial Development Bank of Canada, Montreal dated December 3, 1964.

Commonwealth Bank into the Reserve Bank may appear to be anomalous. But the Department will provide short-term finance chiefly to co-operatives and governmental marketing authorities.[1]

It is rather curious that as India is progressing in her stages of economic development, the central bank is expanding its rôle in the field of non-central banking business instead of gradually retreating from it. Although structurally the Reserve Bank remains the same institution as in the original charter except that it is now wholly nationalised, the Bank's own conception of its rôle has changed significantly. In a developing economy the promotional rôle that a central bank has to play undoubtedly involves the assumption of diverse functions and the use of a multiplicity of techniques. But the question is how far should the Reserve Bank go? Time has come to consider seriously in the context of the ever widening gamut of its activities whether the Reserve Bank is overstepping its rôle. We are not making a doctrinaire or ideological approach to the question but only a pragmatic approach. It may be observed that the responsibilities of the Reserve Bank are already rather heavy and complex. Apart from its positive responsibilities for framing an appropriate monetary policy to help achieve a rapid rate of economic growth with reasonable monetary stability, it has extended its activities over a wide field through three Departments, the Agricultural Credit Department, the Industrial Finance Department and the Banking Development Department. At its initiative there has been established over the entire country the basic institutional structure of agricultural credit. The problems arising out of financing co-operative societies, building godowns and warehouses, inspecting co-operative banks and training co-operative personnel are enormous and are engaging the time and attention of the Bank in its Agricultural Credit Department. Through the Industrial Finance Department the Bank has attempted to fill up the gaps in the institutional financing of small-scale industries in collaboration with the SFCs and the RCI. Through the Banking Department it has been making strenuous efforts to extend banking facilities into the rural and semi-urban areas and to

[1] *See Central Banking Legislation* (published by the International Monetary Fund, 1961) pp. 46-47.

build up a sound structure of banking by means of periodical inspections and otherwise. The inspection of banking companies to find out if they are pursuing sound methods of financing and maintaining their books in proper order is itself a tremendous task in a vast country like India. As if all this was not enough to keep the Bank wholly occupied, the Bank has been recently asked by government to assume new responsibilities, those of keeping a watch over the activities of numerous non-banking financial institutions.

It is an impressive and formidable array of activities in which the Reserve Bank is involved today. We are not aware if the central bank of any other developing country has been saddled with such heavy and complex responsibilities. But here it is the choice of the Central Bank itself and the government of the country has also acquiesced in its own interest in this ever expanding range of the activities of the Bank which is steadily evolving into a huge monolithic organisation.

Without being weighed down by the pressure of the existing responsibilities which are continually growing, the Reserve Bank of India has chosen to enter into an altogether new field—an uncharted field so to speak so far as the Bank is concerned—the field of development banking. To build up experience, to provide expertise by training up a staff from within, to formulate the right kind of policy for such an institution, to develop an imaginative outlook, radically different from that of the central banker, and a capacity to widen the range of its techniques as a development banker—all these are new tasks that the Bank will have to face. We wonder if these new and unfamiliar duties which the Reserve Bank is thrusting upon itself will not affect the quality of its other promotional and regulatory functions and even its very leadership of the money market which it has so assiduously built up during the last three decades.

Now we come to the crucial question, that of the multiplicity of development banks in the country. What was the necessity of starting a new Bank at all when there was a battery of development financing institutions already in the country? Could not the IFC be transformed into a true development bank? Could not the IFC and the NIDC be merged together and a development bank be born out of the union? The Indus-

trial Finance Corporation has already been playing a significant part in the financing of the industrial development of the country. Whatever lacuna there was originally in its methods of financing has recently been removed by empowering the IFC to subscribe directly to the equity capital of industrial concerns and also to exercise the option of converting its loans and subscription of bonds and debentures into ordinary shares. Thus the IFC has now been enabled to adjust its financing methods to the needs of each particular case. From the estimate of the total volume of IFC's financial assistance in various forms,—loans, underwritings and guarantees,—as given earlier, it will be clear that it has not belied the expectations of the authorities. A glance at the table given below will also show the increasingly important rôle it has been playing during the Plan period: it is reflected in the mounting volume of the financial assistance sanctioned and disbursed during each of the plan periods[1]:

TABLE

[Rs. crores]

	Net financial assistance sanctioned	Disbursed
1. Period prior to the Plan	8.13	5.79
2. The First Plan Period	27.02	10.94
3. The Second Plan Period	68.81	51.94
4. The first three years of the Third Plan	92.82	55.78
Grand Total	196.78	124.45

The figures of total assistance furnished by the Corporation are thus quite impressive. But they do not tell the whole story. What is of more importance is the total cost of the projects which have come to fruition as a result of the IFC's assistance. In 1963 it was estimated at Rs. 433 crores, nearly one third of the total investment in the private sector organised industries in post-independence years.[1] Thus the IFC's rôle in

[1] Sixteenth Annual Report of the IFC for the year 1963-64, p. 16.

developing the industrial economy of the country cannot be brushed aside as being either inadequate or insignificant.

The promotional nature of the IFC's activities has been steadily increasing and today it can no longer be characterised as a mere industrial financing institution. It has been progressively assuming the rôle and functions of a true development bank. A pioneer in the field of development banking, it has already gathered a wealth of experience in this respect and has equipped itself with a trained and talented staff with the necessary expertise. The nucleus of a technical department is being built up and the Chairman has observed in one of his recent speeches at the Annual General meeting that efforts are being made to strengthen the technical staff of the Corporation adequately.[2] The IFC, the Chairman himself has assured us, now stands poised to assume larger and more positive responsibilities of a full-fledged development bank.[3] With a little more imaginative outlook, a more versatile approach and free from the old shackles of conservatism which had cramped its operations in the earlier years and with a growing appreciation of the true rôle of a development bank, the IFC can certainly take up the challenge thrown up by the rapidly changing economic scene. What could have been more desirable and more natural than converting the IFC into the Industrial Development Bank of India? The Pakistan Government has displayed a more heightened awareness of the exigencies of the situation by transforming the Industrial Finance Corporation of Pakistan into the Industrial Development Bank of Pakistan. The Indian Government has been ill-advised to usher in a new-fangled institution which may seal the fate of one of the finest development financing institutions operating in any underdeveloped country today. Clause 38 of the IDB Act together with Parts I—IV Second Schedule to the Act and the notes on the clause are ominous: they envisage the ultimate absorption of the IFC into the IDB. The IFC Act has been proposed to be amended under this clause so that the shares held by the Reserve Bank

[1] Speech of the Chairman of the IFC at the Fifteenth Annual General Meeting 1963, p. 3

[2] Speech of the Chairman at the Sixteenth Annual General Meeting of the IFC, 1964 p. 10

[3] Speech of the Chairman at the Fifteenth Annual General Meeting of the IFC 1963, p. 3

in the IFC may be transferred at par value to the IDB and the latter be enabled to acquire further shares in the IFC so that its holdings in the Corporation may be increased to 50% of the paid up capital of the Corporation. Effect has already been given effect to the amendment. The shares held in the IFC by the Central Government and the Reserve Bank stand transferred at par value to the IDB, and the latter has also acquired additional shares so that its total holdings may be brought up to 50% of the paid up capital of the IFC. Simultaneously it has been provided that the Board of Directors of the IFC shall be guided by such instructions on questions of policy as may be given to it by the Development Bank instead of by the central government. If the Board fails to carry out the instructions on the question of policy given by the Development Bank, the Central Government shall have the power to supersede the Board. The Development Bank has been empowered to nominate four directors on the Board of the IFC and the central government only two in place of four previously.[1] Provision has also been made to transfer at some stage, if considered necessary, the entire business and undertaking of the IFC to the IDB. At that stage, the note is quite clear, the IFC will be a wholly owned subsidiary of the IDB or be merged into it. It is difficult to understand the logic behind this intention in the clause. A more rational approach should have been helping the IFC to evolve into a full-fledged IDB by a few amendments of its constitution instead of destroying the pioneer and now mature institution in the field. The Chairman of the IFC expects that the formation of the IDB and the consequential changes in the IFC's charter will enable the Corporation to play a yet more important rôle in the country's industrial development.[2] We are afraid he is under a misapprehension. The IFC simply will not be there!

Then there was the National Industrial Development Corporation, whose debut was heralded by a fanfare, originally designed as an instrument of government to secure a balanced and integrated development of industries in the private as well

[1] Secs. 4A (I), 6 (3) and (4), and 10 [(I)] (a) (a), (b) and (d) IFC Act of 1948 as amended by the IDB Act, 1964.

[2] Speech of the Chairman, Sixteenth Annual General Meeting of the IFC 1964, p. 7

as in the public sector. With its emphasis upon development as distinguished from finance it was from the start empowered to provide equity capital and technical and promotional services. It was to take up the study and investigation of industrial equipment, experience and skill available in the country. According to its Memorandum of Association the corporation was established with the following objects among others[1]:

(1) To promote, establish and execute industries, projects and enterprises for manufacture and production of plant, machinery, tools, implements, materials etc.;

(2) To aid, assist and finance any industrial undertaking owned or run by government or private persons or companies with capital, credit, means or resources for prosecution of its work and business;

(3) To promote and establish companies for the prosecution of industrial undertakings whether of a private or public character which in the opinion of the corporation would contribute to the industrial development of India and to acquire and dispose of shares in such companies;

(4) To procure capital for or to provide machinery equipment etc. to any company whose activities relate to the industrial development of the country and subscribe for or underwrite or otherwise deal with shares, debentures, and other securities.

(5) To carry on all kinds of exploration business and in particular to search for, prospect, examine and explore mines and ground supposed to contain minerals or precious stones.

(6) To construct, execute, equip, work, develop, administer, manage all kinds of public works including railways, tramways, docks, harbours, piers, bridges, irrigation water, gas, electric light, hotels, warehouses, markets, public buildings, telegraphic, telephonic and power supply works.

(7) To draw, make, accept, discount, execute, issue and negotiate bills of exchange and promissory notes debentures etc.

[1] *See* Memorandum of Association of the National Industrial Development Corporation of India 1954, Art. III.

Indeed quite a grandiose rôle was assigned to the NIDC. Its establishment was hailed as marking an altogether new phase in the evolution of development financing institutions in India.

The National Industrial Development Corporation for which so much was claimed has now been left to languish. Although it had the ideal base it did not blossom forth into the type of a development bank befitting the ambitious rôle assigned to it by its statute. Instead it was content with performing the prosaic rôle of a provider of finance to the cotton and textile industries which the IFC could also do equally well, if not better. The proud record of its achievement is that it sanctioned loans to these two industries to the extent of Rs. 28.2 crores of which again only Rs. 14.9 crores were disbursed upto the end of March 1964 as against Rs. 26.4 crores and Rs. 12.0 crores respectively upto the end of March 1963.[1] Curiously enough it was decided in February 1963 that the Corporation should not entertain any fresh loan applications. According to its Annual Report 1963-64 the directors of the Corporation have decided to approach the government once again to persuade it to reconsider its decision and revive the loan activities of the Corporation. It had invested Rs. 40 lakhs in a subsidiary of its own—the Pyrites and Chemicals Development Company. By directions of the government since September 1963 the company has ceased to be a subsidiary of the NIDC and the shares have been transferred to the President of India at par.[2] We do not know if it will be allowed to die of sheer attrition.

A more fruitful step would have been to unite together the NIDC with its accent on promotion and development and the IFC with its emphasis on financing. Instead of sponsoring another innovation and asking the Reserve Bank to adopt it as a child of its own, the Reserve Bank should have been better directed to act as a midwife to assist the birth of the IDB out of the union of the IFC with NIDC.

The mushrooming and overlapping of development finance institutions in the field of industry and agriculture in India is

[1] *Annual Report on Currency and Finance*, Reserve Bank of India 1963-64, p. 66.

[2] Annual Report of the National Industrial Development Corporation 1963-64, pp. 4-5. The NIDC also approved a loan of Rs. 1 crore for the machine tool industry.

puzzling to the logical mind. The proliferation of these institutions reflects the persistent efforts of the central government to rectify the failures of its previous half-hearted gropings in the dark. The government does not seem to know its own mind and after the fate of the NIDC we have grave misgivings about the future pattern of the activities of the IDB which admittedly has neither any experience nor any expertise. The performance of the recently formed Agricultural Refinance Corporation has also been far from encouraging. The Chairman of the Corporation himself has observed that it is a pity that it could approve only four schemes during the first year.[1] The setting up of "standards of constructive and imaginative endeavour in new fields", which the Finance Minister[2] envisages to be the distinguishing characteristic of the new development bank, may remain after all a political dream, unless of course the Reserve Bank, already overworked and with its fingers in too many pies, can rise to the height of the occasion and work a miracle.

[1] Speech of the Chairman of the Agricultural Refinance Corporation at the first Annual General Meeting, September 1964. *See Reserve Bank of India Bulletin* Sept. 1964, pp. 1160.

[2] *See* Speech of the Finance Minister on the occasion of the Inauguration of the IDB, Bombay, July 3, 1964.

POSTSCRIPT

THE Industrial Development Bank of India commenced its operations only a few months before. According to the authorities of the Bank it has endeavoured, during this period, to work as an apex institution by complementing and supplementing the operations of other financial institutions. It has taken up the shortfall in public subscriptions to the bond issues of two State Financial Corporations ; it has shared with some other institutions in the supply of capital through underwriting to a number of medium and large units and participated with them in lending and guaranteeing operations ; it has evolved proposals for new facilities to approved banks and financial institutions for rediscounting bills based on deferred payments for purchases of machinery to assist both the buyer and the manufacturer of such machinery. For the present cotton textile, jute, cement, sugar and paper machinery manufacturing industries have been approved. It is also considering ways and means of increasing, in participation with banks and other institutions, the funds available for financing industrial expansion. After taking over the business of the RCI from September 1964, the IDBI has been providing refinance facilities as before. The refinancing scheme has been revised to provide *partial refinancing* in respect of industrial loans. Under the revised scheme the IDBI will provide refinance upto 80% of all eligible loans. Further, it has been trying to build up panels of experts in the spheres of industry, finance and administration to assist it in the performance of its various functions. It is to be only hoped that these panels are not reduced to mere "advisory committees" of the IFC type. New complex and basic industries like the wide range of petrochemicals and vital fields like fertilisers and alloy steels which require large funds are being envisaged as specialised fields suitable for the lending operations of the Development Bank.* But both the IFC and ICIC have covered these industries and not neglected them.

* Source : The Industrial Development Bank of India. Letter to the present writer dated May 20, 1965.

APPENDIX

Specimen Statutes and Memoranda and Articles of Association of Development Banks

SAMPLE PROVISIONS PRESENTED IN THE APPENDIX ARE BASED ON THE FOLLOWING DOCUMENTS

1. The Industrial Development Bank Act of Canada 1944-1945 as amended by R.S.C. 1952, c.326, 1956, c.25, 1960-61, c.50.
2. Memorandum and Articles of Association of the Industrial Development Bank Ltd. of Burma (1960-61).
3. The Industrial Development Bank of Pakistan Ordinance, 1961.
4. Development Finance Corporation of Ceylon Act, No. 35 of 1955.
5. The Industrial Finance Corporation Act, 1948 as modified upto November 1961.
6. The Industrial Development Bank of India Act 1964.
7. Memorandum and Articles of Association of the Industrial Credit and Investment Corporation of India Ltd. (1954-1955).
8. Memorandum of Association of the National Industrial Development Corporation Ltd. (1954).
9. Nepal Industrial Development Corporation Act, 2016 (1959) as amended in 2021.
10. Law Substituting Government Regulation NR 21 of the year 1960 Regarding Bank Pembangunan Indonesia.

N.B. Provisions relating to some of the items are not explicitly written down into the Charters or Memoranda and Articles of Association of a number of Banks.

1. CONSTITUTION AND MANAGEMENT—BOARD OF DIRECTORS—EXECUTIVE COMMITTEE

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

3.(1) There shall continue to be a bank called the Industrial Development Bank consisting of, as members, those persons for the time being comprising the Board of Directors of the Bank of Canada and the person for the time being holding the office of Deputy Minister of Trade and Commerce, who shall constitute a corporation which for all purposes of this Act is an agent of Her Majesty in right of Canada.

5.(1) The Bank shall be under the management of a Board of Directors composed of the members of the Bank, which may exercise all of the powers of the Bank.

6.(1) The Director who is Governor of the Bank of Canada shall be President of the Bank.

7.(1) There shall be an Executive Committee of the Board consisting of the Directors who are members of the Executive Committee of the Bank of Canada, the person for the time being holding the office of Deputy Minister of Trade and Commerse and one other Director selected by the Board.

(2) The Executive Committee is competent to deal with any matter within the competence of the Board and shall submit minutes of its proceedings to the Board at its next following meeting.

THE INDUSTRIAL DEVELOPMENT BANK OF BURMA

78. The number of Directors shall not be less than three or more than seven including the Chairman ; and the Directors holding shares in the name of the Government shall be nominated by the President, and the number of such Directors shall not exceed half the number (without counting the Chairman) of the total number of Directors.

79. A full-time Chairman shall be appointed by the President of the Union of Burma for such period or periods as he may determine.

80. The non-Government Directors shall be elected by the shareholders at the Annual General Meeting except that the first Directors shall be those as stated in the Memorandum of Association.

81. The Directors shall have power at any time and from time to time to appoint any person to be a Director to fill a casual vacancy. Any Director so appointed shall hold office only until the next General Meeting to be held within 90 days from the date of such appointment and shall then be eligible for re-election, but shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

106. The overall business of the Bank shall be managed by the Directors.

118. The General Manager shall be the chief-executive officer in direct charge of the administration and operations of the Bank and shall be nominated by the Board of Directors with the approval of the President at such remuneration and upon such conditions as they may think fit ; and any General Manager so nominated may be removed with the approval of the President under a resolution arrived at a Directors' Meeting, but without prejudice to any claim he may have for damages or breach of any contract or service between him and the Bank.

The Board shall appoint such other officers as may be required for the efficient operation of the Bank.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

12.(1) The general direction and superintendence of the affairs and business of the Bank shall vest in a Board of Directors of the Bank constituted in accordance with section 13 which may exercise all such powers and do all such acts and things as may be exercised or done by the Bank and are not, by this Ordinance, expressly directed or required to be done by the Bank in the general meeting.

(2) The Board in discharging its functions shall act on commercial considerations with due regard to the interests of industry and commerce and to the public interest generally.

(3) In the discharge of its functions the Board shall be

guided on questions of policy by the instructions, if any, given to it by the Central Government which shall be the sole judge as to whether a question is a question of policy.

(4) If the Board fails to carry out the instructions given to it under sub-section (3), the Central Government may supersede the Board and appoint any person or body to function in the place of such Board until a new Board is constituted in accordance with the provisions of this Ordinance and no such supersession or appointment shall be questioned in any court.

13.(1) The Board shall consist of the following Directors, namely:

- (*a*) the Chairman;
- (*b*) six persons to be appointed by the Central Government as follows:
  - (*i*) two from persons serving under the Central Government;
  - (*ii*) two from persons serving under the Provincial Governments of whom one shall be from each Province; and
  - (*iii*) two non-officials of whom one shall be from each Province;
- (*c*) three persons elected, in such manner as may be prescribed by regulations, by the shareholders, other than the Central Government, from amongst themselves so as to elect one from each group of shareholders registered in the three registers maintained under Section 8; and
- (*d*) the Managing Director.

14.(1) A Chairman shall be appointed by the Central Government and such appointment may be honorary or on such terms and conditions as the Central Government may determine.

(2) Unless the Central Government otherwise directs, the Chairman shall hold office for a term of three years and continue in office thereafter until his successor is appointed and shall be eligible for re-appointment.

15.(1) The Managing Director shall be appointed by the Central Government on such salary and terms and conditions as the Central Government may determine.

(2) The Managing Director shall, unless the Central Government otherwise directs, hold office for a term of three years which the Central Government may, from time to time, extend.

(3) The Managing Director shall be a wholetime officer of the Bank and shall perform such functions as are assigned by this Ordinance or may be assigned by the Board:

Provided that the Central Government may utilise the services of the Managing Director for any other work.

17.(2) No person shall be elected or qualified for election who—

(*a*) is in the service of Government or any statutory body or institution in Pakistan; or

(*b*) does not hold in his own right unencumbered shares of the Bank of the nominal amount of not less than five hundred rupees.

18.(1) The Board shall constitute an Executive Committee consisting of the following members to assist it in the discharge of its functions under this Ordinance:

(*a*) the Managing Director;

(*b*) two appointed Directors nominated by itself; and

(*c*) two elected Directors nominated by itself.

(2) The members of the Executive Committee shall hold office for such period as may be prescribed by regulations.

(3) The minutes of every meeting of the Executive Committee shall be laid before the Board for approval at its meeting next following the meeting of the Committee.

(4) Subject to general or special directions of the Board, the Executive Committee may deal with any matter within the competence of the Board.

DEVELOPMENT FINANCE CORPORATION OF CEYLON

9.(1) The general supervision, control and administration of the affairs and business of the Corporation shall be vested in a Board of Directors constituted in accordance with Section 10.

(2) The Board of Directors may exercise all the powers and do all the acts which may be exercised or done by the Corporation.

(3) The Board of Directors may utilise the funds of the Corporation for the purpose of defraying any expenditure incurred in the management of the affairs of the Corporation, the transaction of the business of the Corporation, the remuneration of the Directors and employees of the Corporation, and the exercise of the powers and the performance of the duties of such Board under this Act.

(4) It shall be the duty of the Board of Directors to ensure that every application dealt with on behalf of the Corporation is considered strictly on its financial and economic merits irrespective of all other considerations.

(5) The Board of Directors shall take all such measures as may be necessary to ensure that any financial assistance rendered by the Corporation to any private industrial or agricultural enterprise is utilised for the purpose for which it is given.

(6) The Corporation shall not make an investment in or otherwise transact business with an enterprise in which a Director of the Corporation is a partner, director or shareholder, or is in any other way directly or indirectly interested, unless the transaction is unanimously approved by the other Directors of the Corporation.

(7) The Board of Directors shall appoint a General Manager of the Corporation, and he shall, subject to the direction of the Board of Directors, be the chief executive officer of the Corporation.

10.(1) The Board of Directors shall be constituted in accordance with the provisions of this section.

(2) So long as there is outstanding any loan made by the Government to the Corporation pursuant to the provisions of this Act, the Minister of Finance, acting in consultation with the Minister of Industries, Housing and Social Services, shall be entitled from time to time to appoint one person as a Director (hereinafter called the "Government Director") of the Corporation, to remove such person from office, and on a vacancy being caused in such office whether by resignation, death, removal or otherwise, to appoint a Director to fill the vacancy. The Government Director shall not be liable to retire by rotation or be removed from office except by the Minister of Finance as aforesaid and shall not be bound

to hold any qualification shares. Subject as aforesaid the Government Director shall be entitled to the same rights and privileges and be subject to the same obligations as any other Director of the Corporation, except that, if the Government Director is a public servant, he shall not be entitled to any remuneration as such Director.

(3) The following shall be ex-officio Directors of the Corporation without the right to vote:

(*a*) The holder for the time being of the office of Director of the Ceylon Institute of Scientific and Industrial Research.

(*b*) The holder for the time being of the office of General Manager of the Corporation.

The ex-officio members shall not be required to hold any qualification shares.

(4) There shall be not less than four and not more than six other directors (hereinafter referred to as "Shareholder Directors"). The Minister of Finance shall appoint the initial Shareholder Directors.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

6.(1) The general superintendence and direction of the affairs and business of the Corporation shall be entrusted to a Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Corporation.

(2) The Board in discharging its functions shall act on business principles due regard being had by it to the interests of industry, commerce and the general public.

(3) In the discharge of its said functions, the Board shall be guided by such instructions on questions of policy as may be given to it by the Central Government.

(4) If any dispute arises between the Central Government and the Board as to whether a question is or is not a question of policy, the decision of the Central Government shall be final.

10.(1) The Board of Directors shall consist of the following, namely:

(*a*) a Chairman to be appointed by the Central Government after consultation with the Board;

(*aa*) four Directors nominated by the Central Government;

(*b*) two Directors nominated by the Central Board of the Reserve Bank;

(*c*) two Directors elected in the prescribed manner by the scheduled banks who are shareholders of the Corporation;

(*d*) two Directors elected in the prescribed manner by the shareholders of the Corporation, other than the Central Government, the Reserve Bank, the scheduled banks and co-operative banks;

(*e*) two Directors elected in the prescribed manner by the co-operative banks who are shareholders of the Corporation.

10A.(1) The Chairman of the Board shall receive such salary and allowances as may be determined by the Board with the approval of the Central Government.

14.(1) There shall be established a Central Committee which shall consist of

(*a*) a Chairman

(*b*) two Directors elected by the nominated Directors, and

(*c*) two Directors elected by the elected Directors.

(2) The Chairman of the Board shall be the Chairman of the Central Committee.

(3) A Director elected to be a member of the Central Committee shall hold office as such for the rest of his term of office as Director for which he is so elected.

(4) Subject to such general and special directions as the Board may from time to time give, the Central Committee shall be competent to deal with any matter within the competence of the Board.

(5) The minutes of every meeting of the Central Committee shall be laid before the Board at its next following meeting.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

5.(1) The general superintendence, direction and management of the affairs and business of the Development Bank shall vest in a Board of Directors, which may exercise all powers and do all acts and things which may be exercised or done by the Development Bank.

6.(1) The Board shall consist of such persons as for the time being hold office as directors on the Central Board of the Reserve Bank.

(2) The Governor of the Reserve Bank shall be the chairman and a Deputy Governor of the Reserve Bank nominated by that Bank in this behalf shall be the vice-chairman of the Board.

7.(1) The Board may constitute an Executive Committee constituting of such number of directors as may be prescribed.

(2) The Executive Committee shall discharge such functions as may be prescribed or as may be delegated to it by the Board.

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LIMITED

121. Until otherwise determined by a General Meeting the number of Directors shall not be less than 5 or more than 15 excluding the Government Director and Debenture Director (if any).

123.(1) During such time as any amount under the Agreement referred to in Article 4(1)(*a*) or the Agreement dated October 26, 1959, between the Government of India and the Company shall remain unpaid or so long as the Guarantee Agreement dated March 14, 1955 or Guarantee Agreement dated July 15, 1959 or the Guarantee Agreement dated October 28, 1960 or the Guarantee Agreement dated February 28, 1962, between the President of India and the International Bank for Reconstruction and Development shall remain in force, the President of India shall have the right from time to time to appoint one person as a Director of the Company and to remove such person from office and on a vacancy being caused in such office from any cause whether by resignation, death removal or otherwise to appoint a Director in the vacant place. The Company shall be entitled to agree with the President of India for the appointment of a Director of the Company by the President of India as contemplated by this Article in respect of any future advance or advances by the Government of India or in respect of any guarantee or guarantees that may be given

by the Government of India in connection with the Company's future borrowings from The International Bank for Reconstruction and Development or any other financial institution. The Director appointed under this Article is herein referred to as "the Government Director" and the term "Government Director" means the Director for the time being in office under this Article. The Government Director shall not be liable to retire by rotation or be removed from office except by the President of India as aforesaid. The Government Director shall not be bound to hold any qualification shares. Subject as aforesaid the Government Director shall be entitled to the same rights and privileges and be subject to the same obligations as any other Director of the Company. [as amended on 11.4.63]

161. Subject to the provisions of the Act and these presents the business of the Company shall be managed by the Directors who may exercise all such powers and do all such acts and things as the Company is by its Memorandum of Association or otherwise authorised to exercise and do and are not by these presents or by statute directed or required to be exercised or done by the Company in General Meeting but subject nevertheless to the provisions of the Act and of the Memorandum of Association and these presents and to any regulations not being inconsistent with the Memorandum of Association and these presents from time to time made by the Company in General Meeting provided that no such regulation shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

INDUSTRIAL DEVELOPMENT CORPORATION OF NEPAL

8. Management:

The superintendence and direction of the affairs and the business of the Corporation shall vest in the Board, which may exercise all powers and do all acts and things which may be exercised or done by the Corporation, and are not by this Act expressly required to be done by the Corporation in General Meeting.

9. Composition of the Board and Terms of Office of the Directors:

(1) The Board shall consist of six Directors. Out of the six Directors two shall be non-official having sound knowledge in industry and trade or only in industry or in trade. They must not necessarily be shareholders but must be selected in the general meeting of the shareholders. As for the remaining four Directors, if His Majesty's Government holds 25% or more share Directors shall be nominated by His Majesty's Government in proportion to its shareholdings. The remaining Directors shall be elected from among the shareholders in the general meeting of the shareholders and the representative of His Majesty's Government shall not participate in such election.

(2) The Directors shall hold office for a period of two years.

(3) Where His Majesty's Government has entered into an agreement with a foreign agency for obtaining assistance to the Corporation whether by way of grant or loan or otherwise, and where such agreement so provides, the foreign agency may by consultation with His Majesty's Government nominate such number of Board Advisor as may be specified in the agreement and they shall hold office during the pleasure of the foreign government or agency nominating him.

Provided that there shall not be more than four Board Advisors at any one time.

13. Chairman of the Board:

(1) The first Chairman of the Board shall be nominated by His Majesty's Government, and shall hold office until the first General Meeting of the shareholders.

(2) The Board of Directors, at its first meeting, will elect a Chairman from among its members.

17. Authority and Responsibility of the Board:

(1) The Board in discharging its functions under this Act shall act on business principles with due regard to the interest of industry, commerce and public welfare in Nepal.

(2) Without prejudice to the provisions elsewhere in this Act, the Board is authorized to, and is responsible for, the following:

(*a*) The Board is responsible for proper and adequate maintenance of accounts of the transaction of the Corporation and also for reporting from time to

time in matters relating to commercial, industrial, financial and economic condition of the Corporation, in accordance with rules and regulations framed by the Board.

(*b*) The Board with the approval of the shareholders may recommend to His Majesty's Government to effect any amendment to this Act.

(*c*) The Board may delegate to any officer of the Corporation and through him to his authorised assistants, or to any person, any of its powers relating to the operation and management of the Corporation except those powers of the Board which it expressly reserves to itself.

BANK PEMBANGUNAN INDONESIA

(Development Bank Of Indonesia)

Art. 7.

The Bank is managed by:

a. the Development Council ;

b. the Managing Board of Directors

Art. 11.

(1) The Managing Board consists of two Directors at the least. One of the Managing Directors may be nominated as President Director.

(2) The Managing Directors are nominated by the President of the Republic of Indonesia based on the recommendation of the Development Council for a maximum period of five years. Upon expiry of said period the retiring Members are eligible for renomination.

Art. 13.

(1) The Managing Directors are prohibited to occupy any other remunerated employment, jobs, or task.

(5) Any Director of the Managing Board may not be engaged or interested in any commercial activity whatesoever.

2. CAPITAL AND BORROWING POWERS—DEBT EQUITY RATIO

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

12. (1) The authorized capital of the Bank is fifty million dollars divided into five hundred thousand shares of the par value of one hundred dollars each.

(2) The Bank of Canada shall subscribe for the said five hundred thousand shares at par and shall pay the amount of such subscription at such times and in such amounts as the Board may determine.

14. The aggregate of the total direct liabilities including bonds and debentures issued by the Bank, and of the total contingent liabilities of the Bank in the form of guarantees given or underwriting agreements entered into by it shall not, at any time, exceed five times the aggregate amount of the paid-up capital and the Reserve Fund, for which provision is made hereinafter.

THE INDUSTRIAL DEVELOPMENT BANK OF BURMA

6. The authorized capital of the Bank which is a public limited company shall be K 5,00,00,000 divided into 3,00,000 Ordinary Shares of K 100 each and 2,00,000 Unclassified Shares of K 100 each.

108. Subject to the provisions of these presents the Directors may from time to time at their discretion borrow any sum or sums of money for the purposes of the Bank: Provided that the Directors shall not borrow or guarantee any sum of money which after such borrowings or guarantee will make the amount borrowed and guaranteed by the Bank and at that date outstanding exceed an amount equal to three times the aggregate of (1) the unimpaired capital of the Bank, (2) the surplus and reserves of the Bank: Provided, however, that the rights of any lended or other person dealing with the Bank shall not be affected by the transgression of these limits. For the purpose of this Article

the amounts of the unimpaired capital and of the surplus and reserves of the Bank shall be those ascertained and certified by the Bank's auditors on the basis that the Bank is a going concern : Provided that such a certification shall be deemed to be valid for a period of six months from its date.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

4. (1) The share capital of the bank shall, in the first instance, be three crores of rupees divided into three lakh fully paid up shares of one hundred rupees each and may, with the approval of the Central Government, be increased from time to time by the Board.

(2) Fifty-one per cent of the shares issued at any time shall be subscribed for by the Central Government and the remaining shares shall, in the first instance, be offered to the shareholders of the Corporation other than the Central Government and, if such shares are not subscribed for by such shareholders, be offered for public subscription.

(3) The Provincial Governments, the State Bank, a scheduled bank, a co-operative bank, an insurance company, an investment trust or any like institution may subscribe for the shares offered for public subscription.

(4) If any of the shares offered for public subscription remain unsubscribed for a period of six months from the date of issue, the Central Government may subscribe for all or any of such unsubscribed shares.

31. (1) The Bank may, for the purpose of raising its working capital, with the prior approval of the Central Government, issue and sell bonds and debentures carrying interest at such rates as may be approved by the Central Government :

Provided that the total of the sums due on such bonds and debentures issued and outstanding and the contingent liabilities of the Bank in respect of guarantee or underwriting agreements shall not, at any time, exceed five times the amount of the paid-up share capital and the Reserve Fund of the Bank.

(2) The bonds and debentures of the Bank shall be

guaranteed by the Central Government as to the repayment of principal and payment of interest at such rate as may be fixed by the Central Government at the time the bonds and debentures are issued.

(3) The Bank may, for the purpose of granting loans to industrial concerns in foreign currency and with the prior approval of the Central Government, borrow such currency from the International Bank for Reconstruction and Development or any other agency, and may pledge, mortgage, hypothecate or assign to the said International Bank or other agency all or any part of the security taken by the Bank for the loans granted in foreign currency.

DEVELOPMENT FINANCE CORPORATION OF CEYLON

7.(1) The authorised share capital of the Corporation shall be eight million rupees divided into eighty thousand ordinary shares of one hundred rupees each.

13. (1) For the purposes of its business the Corporation may borrow from the Government, and the Government may lend to the Corporation from the Consolidated Fund of Ceylon without charging any interest, the sum of sixteen million rupees. Any loan made under this sub-section shall be repayable to the Government by the Corporation in fifteen equal annual instalment, the first of which shall be due in the sixteenth year succeeding the year in which such loan is granted by the Government, but the Corporation shall have the right to prepay all or any part of any such loan at any time. Every sum in repayment of such loan shall be paid to the Secretary to the Treasury who shall credit it to the Consolidated Fund of Ceylon.

14.(1) The Government is hereby authorised to guarantee, on such terms and conditions as the Government may determine, loans raised by the Corporation from the International Bank for Reconstruction and Development. The loans authorised to be guaranteed under this sub-section may be denominated in foreign currency. No guarantee shall be given under this sub-section if the aggregate amount of all loans guaranteed under this sub-section exceeds, or as a result of the loan to be guaranteed would exceed, the equiva-

lent of twenty-four million rupees at the rate of exchange prevailing at the date of the loan agreement to which such guarantee would apply.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

4.(1) The authorised capital of the Corporation shall be ten crores of rupees divided into twenty thousand fully paid up shares of five thousand rupees each.

(2) Of the capital issued in the first instance, the Central Government and the Reserve Bank shall each subscribe for two thousand shares.

21.(1) The Corporation may issue and sell bonds and debentures carrying interest for the purpose of raising its working capital:

Provided that the total amount of bonds and debentures issued and outstanding and of the contingent liabilities of the Corporation in the form of guarantees given by it or underwriting agreements entered into by it shall not at any time exceed ten times the amount of the paid up share capital and the reserve fund of the Corporation.

(2) Bonds and debentures of the Corporation shall be guaranteed by the Central Government as to the repayment of principal and the payment of interest at such rate as may be fixed by the Central Government on the recommendation of the Board at the time the bonds and debentures are issued.

(3) The Corporation may, for the purpose of carrying out its functions under this Act, borrow money from the Reserve Bank—

(a) repayable on demand or on the expiry of fixed periods not exceeding ninety days from the date on which the money is so borrowed, against securities of the Central Government or of any State Government; or

(b) repayable on the expiry of fixed periods not exceeding eighteen months from the date on which the money is so borrowed, against securities of the Central Government of any maturity or against bonds and debentures issued by the Corporation under sub-section (1) and guaranteed by the Central Government and maturing

within a period not exceeding eighteen months from the date on which the money is so borrowed:

Provided that the amount borrowed by the Corporation under clause (*b*) shall not at any time exceed three crores of rupees in the aggregate.

(4) The Corporation may also, for the purpose of carrying out its functions under this Act, borrow money from the Central Government on such terms and conditions as may be agreed upon:

Provided that the total amount borrowed by the Corporation from the Central Government under this sub-section and from the Reserve Bank under clause (*b*) of sub-section (3) together with the amount of bonds and debentures issued under sub-section (1) and outstanding shall not at any time in the aggregate exceed ten times the amount of the paid-up share capital and the reserve fund of the Corporation.

22. The Corporation may accept from any State Government or local authority, or any person deposits repayable after the expiry of a period which shall not be less than five years from the date of the making of the deposit and on such other terms as it thinks fit:

Provided that the total amount of such deposits shall not at any time exceed ten crores of rupees.

27.(1) Notwithstanding anything contained in the Foreign Exchange Regulation Act, 1947 or in any other enactment for the time being in force relating to foreign exchange, the Corporation may, for the purpose of granting loans or advances to industrial concerns, borrow, with the previous consent of the Central Government, foreign currency from the International Bank for Reconstruction and Development (or any bank or financial institution in India or in aay foreign country) or otherwise.

(2) The Central Government may, where necessary, guarantee all loans taken by the Corporation under sub-section (1) as to the repayment of the principal and the payment of the interest and other incidental charges.

(3) All loans and advances to industrial concerns out of foreign currency borrowed under sub-section (1) shall be granted in Indian currency and shall be repayable by such concerns in the Indian currency.

(4) Any loss or profit accruing in connection with any borrowing of foreign currency under sub-section (1) for the purpose of granting loans or advances to any industrial concern or concerns or its repayment on account of any fluctuations in the rates of exchange shall be reimbursed by, or paid to, the industrial concern or concerns, as the case may be.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

4.(1) The authorised capital of the Development Bank shall be fifty crores of rupees:

Provided that the Reserve Bank may, with the previous approval of the Central Government, increase the said capital up to one hundred crores of rupees.

(2) The issued capital of the Development Bank shall, in the first instance, be ten crores of rupees, but the Reserve Bank may, with the previous approval of the Central Government, increase the issued capital from time to time up to such amount as it thinks fit.

(3) The issued capital of the Development Bank shall be wholly subscribed by the Reserve Bank.

10. The Central Government may, after due appropriation made by Parliament by law in this behalf, advance to the Development Bank—

(*a*) an interest free loan of ten crores of rupees, repayable in fifteen equal annual instalments, commencing on the expiry of a period of fifteen years from the date of the receipt of the loan; and

(*b*) such further sums of money by way of loan on such terms and conditions as may be agreed upon:

Provided that the Central Government may, on a request being made to it by the Development Bank, increase the number of instalments or alter the amount of any instalment or vary the date on which any instalment is payable under clause (*a*).

11. (1) The Development Bank may, for the purpose of carrying out its functions under this Act,—

(*a*) issue and sell bonds and debentures with or without the guarantee of the Central Government;

(*b*) borrow money from the Reserve Bank—

(i) repayable on demand or on the expiry of fixed periods not exceeding ninety days from the date on which the money is so borrowed against the security of stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest trust money by any law for the time being in force in India ;

(ii) against bills of exchange or promissory notes arising out of bona-fide commercial or trade transactions, bearing two or more good signatures and maturing within five years from the date of the borrowing ;

(iii) out of the National Industrial Credit (Long Term Operations) Fund established under section 46C of the Reserve Bank of India Act, 1934 for any of the purposes specified in that section ;

(c) borrow money from such other authority, organisation or institution in India as may be generally or specially approved by the Central Government ;

(d) accept deposits repayable after the expiry of a period which shall not be less than twelve months from the date of the making of the deposit on such terms as may generally or specially be approved by the Reserve Bank.

(2) The Central Government may, on a request being made to it by the Development Bank, guarantee the bonds and debentures issued by that bank as to the repayment of principal and the payment of interest at such rate as may be fixed by that Government.

12. (1) Notwithstanding anything contained in the Foreign Exchange Regulation Act, 1947 or in any other enactment for the time being in force relating to foreign exchange, the Development Bank may, for the purpose of granting loans and advances under this Act, borrow, with the previous consent of the Central Government, foreign currency from any bank or financial institution in any foreign country of otherwise.

(2) The Central Government may, where necessary, guarantee any loan taken by the Development Bank under

sub-section (1) or any part thereof as to the repayment of principal and the payment of interest and other incidental charges.

14. With effect from such date as the Central Government may, by notification in the Official Gazette, appoint, the Development Bank shall establish a special fund to be called the Development Assistance Fund.

15. To the Development Assistance Fund shall be credited—

(*a*) all amounts received for the purposes of that fund by way of loans, gifts, grants, donations or benefactions from Government or any other source;

(b) repayments or recoveries in respect of loans, advances or other facilities granted from the fund;

(c) income or profits from investments made from the fund; and

(d) income accruing or arising to the fund, by way of interest or otherwise, on account of the application of the fund in accordance with the provisions of Section 16.

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

6. The original capital of the Company is Rupees 25 crores divided into 5,00,000 Ordinary Shares of Rs. 100 each and 20,00,000 Unclassified Shares of Rs. 100 each.

63. The Directors with the sanction of a resolution of the Company in General Meeting, may convert any paid up shares into stock and may convert any stock into paid up shares of any denomination. When any shares have been converted into stock the several holders of such stock may thenceforth transfer their respective interests therein or any part of such interests, in the same manner and subject to the same regulations as and subject to which fully paid up shares in the Company's capital may be transferred or as near thereto as circumstances will admit.

65. The Company may from time to time in General Meeting increase its share capital by the creation of new shares of such amount as it thinks expedient.

75. Subject to the provisions of these presents the Directors may from time to time at their discretion borrow any sum or sums of money for the purpose of the Company : Provided that the Directors shall not subject to any restrictions imposed by the terms of the Agreements mentioned in article 4(1) (*a*) and (*b*) borrow or guarantee any sum of money which after such borrowing or guarantee will make the amount borrowed or guaranteed by the Company and at that date outstanding exceed an amount of Rs. 75 crores. For the purpose of determining the said borrowing limit of Rs. 75 crores the amount of the first advance from the Government of India of Rs. 7.50 crores or any part thereof that may be outstanding shall not be taken into account.

INDUSTRIAL DEVELOPMENT CORPORATION OF NEPAL

4. Share-Capital :

(a) The authorised capital of the Corporation shall be Rs. 1,00,00,000 NC (Ten Million Nepalese Rupees) divided into 1,00,000 shares of Rs. 100 each.

(b) Provided the shares shall not be sold to the foreigners, without the approval of the Government.

5. (a) The authorised capital of the Corporation may be increased or reduced on the recommendation of the Board to such an extent and in such manner as may be determined by a resolution in a General Meeting.

(b) The capital of the Corporation may be increased by :

(i) Issue of additional shares of Rs. 100 each ; or

(ii) The absorption into the capital of its reserve fund or part thereof.

Provided that where new shares are issued, the shareholders shall be entitled to purchase the newly issued shares in preference to persons who are not shareholders.

6. Power to Issue Bonds :

The Corporation may issue bonds, whether or not carrying interest and whether or not carrying the right to dividends, as may be determined by a resolution of a General Meeting of shareholders.

7. Power to Borrow and Receive Grants :

The Corporation may borrow money or accept grants to increase its capital.

Provided that the Corporation shall not borrow money or receive any grants from any foreign agency except without the approval of His Majesty's Government.

DEVELOPMENT BANK OF INDONESIA

(1) The basic capital of the Bank amounts to ten billion rupiahs.

(2) The Bank may strengthen its financial resources by :
   a. obtaining a portion of the profits earned by Government enterprises and assigned to the Bank,
   b. outcomes of the Bank's operations.

(3) The basic capital mentioned in paragraph (1) of this article may be increased by law.

3. SCOPE AND COVERAGE OF ACTIVITIES.

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

2.(*d*) "industrial enterprise" means an enterprise in which is carried on any industry, trade or other business undertaking of any kind ;

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

2.(f) "industrial concern" means a concern engaged or to be engaged in any industry, or in the manufacture, preservation or processing of goods, specified in Schedule I which the Central Government may, from time to time, by notification in the official Gazette, amend so as to include therein any new industry or goods, or to exclude therefrom, or vary the description of, any industry or goods so specified or included ;

28.(1) In respect of business provided for in clauses (1), (2) and (3) of section 27 preference shall be given to medium-term and long-term credit needs of small-scale and medium-scale industries ;

(2) Short-term advance and loans for the purposes of working capital of any industrial concern shall not be made—

(*a*) except in accordance with the rules made in this behalf ; and

(*b*) of an amount exceeding, at any time, twenty-five per cent of the total advances made to such concern except with the prior approval of the State Bank.

DEVELOPMENT FINANCE CORPORATION OF CEYLON

4.(2) Any industrial or agricultural enterprise in Ceylon in which the Government holds not more than twenty per centum of the capital shall, for the purposes of paragraph (a) of sub-section (1), be deemed to be a private industrial or agricultural enterprise in Ceylon.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

2.(c) "industrial concern" means any public limited company or co-operative society incorporated by a Central Act or an Act of the Legislature of a State or under any law for the time being in force and registered in India (which is engaged or is to be engaged) (in the manufacture, preservation or processing of goods) (or in shipping) or in mining (or in hotel industry) or in the generation or distribution of electricity or any other form of power.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

2.(c) "industrial concern" means any concern engaged or to be engaged in the manufacture, preservation or processing of goods or in shipping or in mining or in the hotel industry or in the transport of passengers or goods by road or by water or by air or in the generation or distribution of electricity or any other form of power.

INDUSTRIAL DEVELOPMENT CORPORATION OF NEPAL

2.(d) "Industrial Concern" means any industrial enterprise owned and carried on by any person or a firm or a private limited company or by a company wherein shares are open to public subscription.

4. OBJECTIVES

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

Whereas it is desirable to establish an industrial development bank to promote the economic welfare of Canada by increasing the effectiveness of monetary action through ensuring the availability of credit to industrial enterprises which may reasonably be expected to prove successful if a high level of national income and employment is maintained, by supplementing the activities of other lenders and by providing capital assistance to industry with particular consideration to the financing problems of small enterprises.

THE INDUSTRIAL DEVELOPMENT BANK OF BURMA

III. The objects for which the Bank is established are—

1. To enhance the economic development of the Union of Burma in general by:

- (i) promoting, assisting and participating in the establishment, expansion, and modernisation of productive enterprises within the private sector in the Union of Burma;
- (ii) mobilising internal and external private capital for investment in such enterprises;
- (iii) stimulating, creating and expanding investment, share and security markets

and in particular by:

- (i) providing finance in the form of long or medium-term loans or equity participations;
- (ii) sponsoring and underwriting new issues of shares and securities;
- (iii) guaranteeing loans from other private investment sources;
- (iv) making funds available for re-investment by revolving investments as rapidly as prudent;
- (v) furnishing managerial, technical and administrative advice and assisting in obtaining managerial, technical

and administrative services to industries in the Union of Burma.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

Whereas it is expedient to establish an Industrial Development Bank to replace the Pakistan Industrial Finance Corporation and to provide for making credit facilities expeditiously available to industrial concerns in Pakistan and for matters connected therewith and incidental thereto.

DEVELOPMENT FINANCE CORPORATION OF CEYLON

4.(1) The purposes of the Corporation shall be:—

(a) to assist in the establishment, expansion and modernization of private industrial and agricultural enterprises in Ceylon, and

(b) to encourage and promote the participation of private capital both internal and external, in such enterprises.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

Whereas it is expedient to establish an Industrial Finance Corporation for the purpose of making medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

To establish the Industrial Development Bank of India for providing credit and other facilities for the development of industry and for matters connected therewith and further to amend certain enactments.

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

(1) To carry on the business of assisting industrial enterprises within the private sector of industry in India

in general by

(i) assisting in the creation, expansion and modernization of such enterprises ;
(ii) encouraging and promoting the participation of private capital, both internal and external, in such enterprises ;
(iii) encouraging and promoting private ownership of industrial investments and the expansion of investment markets ;

and in particular by

(i) providing finance in the form of long or medium-term loans or equity participations ;
(ii) sponsoring and underwriting new issues of shares and securities ;
(iii) guaranteeing loans from other private investment sources ;
(iv) making funds available for re-investment by revolving investments as rapidly as prudent ;
(v) furnishing managerial, technical and administrative advice and assisting in obtaining managerial, technical and administrative services to Indian industry.

INDUSTRIAL DEVELOPMENT CORPORATION OF NEPAL

Whereas, in order to further the economic development of Nepal, it is necessary to encourage and assist private industry through the establishment of an institution empowered to provide financial and technical assistance, not otherwise available, but which are necessary for developing, modernising and improving the status of private industry in Nepal ; and

Whereas, it is necessary to establish an Industrial Development Corporation to carry out these purposes ;

His Majesty the King, on the advice of the Council of Ministers, is pleased to enact.

DEVELOPMENT BANK OF INDONESIA

a. that for the purpose of the implementation of the overall development of the country, the existence of a permanent source of capital for financing and securing the continuity of it is deemed necessary ;

c. that the execution of said development projects to the

greatest possible extent should be financed outside the Government's Revenue and Expenditure Budget;

c. that, accordingly, it is deemed necessary to establish a state owned bank entrusted with the task to act as a permanent source of capital for financing said development projects.

5. BUSINESS AND POWERS

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

15.(1) Subject to section 14, where in the opinion of the Board or of an officer authorized for that purpose by the Board

(*a*) a person is engaged or about to engage in an industrial enterprise in Canada,

(*b*) credit or other financial resources would not otherwise be available on reasonable terms and conditions, and

(*c*) the amount invested or to be invested in the industrial enterprise by persons other than the Bank and the character of that investment are such as to afford the Bank reasonable protection, the Bank may lend or guarantee loans of money to that person, and where that person is a corporation,

(*d*) enter into underwriting agreements in respect of the whole or any part of any issue of stock, bonds or debentures of the corporation, and

(*e*) purchase or otherwise acquire

(i) with view to the resale thereof, the whole or any part of any issue of stock, bonds or debentures of the corporation from the corporation or a shareholder thereof or from any person with whom the Bank has entered into an underwriting agreement in respect of the said issue, or

(ii) obligations or certificates issued by a trustee to finance the purchase of transportation equipment for the corporation, if the said obligations or certificates are fully secured by an assignment of the equipment to, or by the ownership of the equipment by, the trustee, or by a lease or conditional sale thereof by the trustee to the corporation, and may subsequently sell or otherwise dispose of the said stock, bonds, debentures, obligations or certificates.

(1a) Where, pursuant to subsection (1), the Bank may lend or guarantee loans of money to any person, the Bank may,

subject to a right of redemption by that person, acquire by purchase or otherwise and hold any tangible movable property or to be used in an industrial enterprise, and may subsequently sell or otherwise dispose of any such property.

24. The Bank may

(*a*) buy, sell and hold securities issued or guaranteed by the Government of Canada;

(*b*) accept deposits as security for the due discharge of obligations under any loan made or guaranteed by the Bank, or as security for the due performance of any agreement with the Bank;

(*c*) acquire and hold real or immovable property for its actual use and occupation and the management of its business and may sell or dispose of the same and acquire other property in its stead for the same purpose;

(*d*) open deposit accounts with the Bank of Canada or any bank to which the *Bank Act* applies; and

(*e*) do all such things as may be necessary for carrying out the intention and purposes of this Act and not specifically prohibited by this Act. 1944-45, c.44, s.24.

THE INDUSTRIAL DEVELOPMENT BANK OF BURMA

(2).(i) To buy, underwrite, invest in and acquire and hold shares, stocks, debentures, debenture stock, bonds, obligations and securities issued or guaranteed by any company or body, corporated or unincorporated, or by a person or association.

(ii) To acquire any such shares, stocks, debentures, debenture stock, bonds, obligations or securities by original subscription, participation in syndicates, tender, purchase, exchange or otherwise and to subscribe for the same either conditionally or otherwise, and to guarantee the subscription thereof and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof.

(iii) To cause, help or aid for remuneration or otherwise the sale, purchase, exchange, transfer or acquisition of shares, stocks, debentures, debenture stock, bonds, obligations or securities.

5. To form, promote, organise and assist or aid in form-

ing, promoting, subsidising, organising or aiding companies, syndicates or partnerships of all kinds for the purpose of acquiring and undertaking any property and liabilities of this Bank or any other Bank or of advancing directly or indirectly the objects thereof or for any other purpose which this Bank may think expedient and to take or otherwise acquire hold and dispose of shares debentures and other securities in or of any such company and to subsidise or otherwise assist any such company.

6. To enter into arrangements with any State or Authority Central Supreme or State Municipal Local or otherwise which may seem conducive to the Bank's objects or any of them and to obtain from any such Government or Authority any concessions, grants or decrees rights or privileges whatsoever which the Bank may think fit or which may seem to the Bank capable being turned to account and to comply with work develop, carry out, exercise and turn to account any such arrangement, concessions, grants, decrees, rights or privileges.

8. To take part in the formation, management, supervision or control of the business or operations of any company or undertaking.

9. To form, manage, join or subscribe to any syndicate.

10. To borrow or raise or secure the payment of money by the issue or sale of debentures, debenture stock, bonds, obligations, mortgages and securities of all kinds, either perpetual or terminable and either redeemable or otherwise, and to charge or secure the same by trust deed or otherwise on the undertaking of the Bank including its uncalled capital, or upon any specific property and rights, present and future, of the Bank or otherwise howsoever.

12. To lend money with or without security and to make advance upon, hold in trust, issue, buy sell or otherwise acquire or dispose of, on commission or otherwise, any of the securities or investments of the kinds before mentioned, or to act as agent for any of the above or the like purposes.

13. To facilitate and encourage the creation, issue or conversion of debentures, debenture stock, bonds, obligations, shares, stocks and securities and to act as trustees in connec-

tion with any such securities and to take part in the conversion of business concerns and undertakings into companies.

18. To promote, organise, manage, hold, dispose of or deal with shares or securities of Unit Trusts whether of fixed or variable character.

23. To give guarantees and carry on and transact every kind of guarantee and counter-guarantee business.

25. To undertake and subscribe for, conditionally or unconditionally, stocks, shares and securities of any other company.

30. To receive money on deposit, loan or otherwise, upon such terms as the Bank may approve, and to give guarantees and indemnities in respect of the debts and contracts of others.

33. To employ experts to investigate and examine into the condition, prospects, value, character and circumstances of any business concerns and undertakings, and generally of any assets, concessions, properties or rights.

36. To draw, make, accept, endorse, discount, negotiate, execute and issue bills of exchange, promissory notes and other negotiable or transferable instruments.

41. To carry on the business of an investment bank and to buy underwrite invest in and acquire and hold shares, stocks, debentures, debenture stocks, bonds, obligations and securities issued or guaranteed by any company constituted, or carrying on business in Burma and debentures, debenture stock, bonds, obligations and securities issued or guaranteed by any Government, State, Commissioners, public body or authority, supreme, municipal, local or otherwise firm or person and to deal with and turn to account the same provided always that no investment imposing, unlimited liability on the Bank shall be made.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

27. The Bank may carry on and transact several kinds of business hereinafter specified, namely:—

(1) advancing and lending of money and opening of cash-credits for the specific purpose of assisting an industrial concern upon the security of:—

(a) stocks, bonds and securities in which a trustee is autho-

rized to invest trust money by any law for the time being in force;

(b) debentures or other securities for money issued by, or on behalf of, a local authority, under any law for the time being in force;

(c) goods and machinery which, or documents of title to which are deposited with, or assigned to, the Bank as security for such advances, loans or credits;

(d) debentures of companies with limited liability, subject to directions as may be issued by the Central Board;

(e) shares of companies with limited liability with the prior approval of the Board;

(f) accepted bills of exchange and promissory notes endorsed by the payees and joint and several promissory notes to two or more persons or firms unconnected with each other in general partnership; and

(g) immovable property or such documents of title relating to immovable property as have been deposited with or assigned to the Bank:

Provided that no security shall be necessary in the case of advances or loans guaranteed by the Central Government or a Provincial Government:

(2) guaranteeing loans, debts and credits raised or incurred by or granted to an industrial concern and repayable within a period not exceeding twenty years:

(3) granting loans to, or subscribing to debentures of, industrial concerns, such loans or debentures being repayable within a period not exceeding twenty years from the date on which they are granted or subscribed to, as the case may be;

(6) giving of call loans which are commonly known as inter-bank call loans to scheduled banks;

(7) receiving of deposits and keeping cash accounts;

Provided that the level of liquidity of such deposits shall be maintained at not less than forty per cent;

(11) underwriting the issue of stocks or debentures by industrial concerns;

(13) acquiring and retaining as part of its assets any stock, shares, bonds or debentures which it may have to take up in discharge of any liability incurred through underwriting any issue subject to the condition that any stock, shares,

bonds or debentures so acquired shall be disposed of as early as possible within a period of not more than seven years from the date of such acquisition;

(14) drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable instruments;

(15) buying of bills of exchange payable outside Pakistan;

(16) issuing of letters of credits;

(17) drawings of bills of exchange and the granting of letters of credit payable outside Pakistan;

(18) borrowing of money for the purpose of its business and giving of security for money so borrowed by pledging assets or otherwise;

(20) taking over, running and selling of such industrial concerns as have failed to repay in full the loan taken from the Bank;

(21) subscribing directly to the stock of any industrial concern with the approval of the Central Government;

(24) carrying out of survey and research of industries and maintaining statistics relating thereto;

(26) generally doing of all such matters and things as may be incidental or subsidiary to the transacting of any of the aforesaid business including foreign exchange business;

29. Notwithstanding anything contained in section 27, the Bank may:

(1) with the previous approval, of and subject to such terms and conditions as may be determined in consultation with the Central Government, grant loans and advances and provide other accommodation to any industrial concern or, for the benefit of such concern, to any local authority, organisation or institution; and

(2) grant loans to, or for the purposes of, any development project or class of such projects which the Central Government may, by notification in the official Gazette, declare to be eligible for loans from the Bank.

DEVELOPMENT FINANCE CORPORATION OF CEYLON

5. In carrying out its purposes, the Corporation may exercise all or any of the following powers:

(i) provide finance in the form of long-term or medium-

term loans, with or without security, or by purchasing or subscribing for shares or other securities, or by acquiring any other interest ;

(ii) underwrite new issues of stocks, shares, bonds, debentures and other securities ;

(iii) guarantee loans from other private investment sources ;

(iv) make funds available for re-investment by selling any investments of the Corporation when and as appropriate ;

(v) borrow funds for the purposes of the business of the Corporation from sources either in Ceylon or abroad and give security for any loans obtained ;

(vi) furnish managerial, technical and administrative advice and assist in obtaining managerial, technical and administrative services to private industrial and agricultural enterprises in Ceylon ;

(xi) draw, accept, or endorse bills of exchange for the purposes of the business of the Corporation ;

(xiv) do all such other things as are incident or conducive to the attainment of its purposes.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

23. (1) The Corporation shall, subject to the provisions of this Act, be authorised to carry on and transact the following kinds of business, namely :

(a) guaranteeing, on such terms and conditions as may be agreed upon,—

(i) loans raised by industrial concerns which are repayable within a period not exceeding twenty-five years, and are floated in the public market ;

(ii) loans raised by industrial concerns from scheduled banks or State Co-operative Banks ;

(b) guaranteeing, on such terms and conditions as may be agreed upon, deferred payments due from any industrial concern—

(i) in connection with its import of capital goods from outside India ; or

(ii) in connection with its purchase of capital goods within India :

Provided that no guarantee under sub-clause (i) shall be given without the prior approval of the Central Government ;

(c) guaranteeing, on such terms and conditions as may be agreed upon, loans raised from, or credit arrangements made with, any bank or financial institution in any country outside India by industrial concerns in foreign currency:

Provided that no such guarantee shall be given without the prior approval of the Central Government ;

(d) underwriting the issue of stock, shares, bonds or debentures by industrial concerns ;

(e) acting as agent for the Central Government or, with its approval, for the International Bank for Reconstruction and Development in the transaction of any business with an industrial concern in respect of loans or advances granted, or debentures subscribed, by either of them ;

(f) subscribing to the stock or shares of any industrial concern ;

(g) receiving in consideration of the services mentioned in clauses (a) to (f), such commission as may be agreed upon ;

(h) retaining as part of its assets any stock, shares, bonds or debentures which it may have to take up in fulfilment of its underwriting liabilities, so however that it disposes of the stock, shares, bonds or debentures so acquired as early as practicable but in no case, the stocks, shares, bonds or debentures so acquired shall be retained beyond a period of seven years from the date of such acquisition, except with the permission of the Central Government ;

(i) granting loans or advances to, or subscribing to debentures of, industrial concerns, repayable within a period not exceeding twenty-five years from the date on which they are granted or subscribed to, as the case may be:

Provided that nothing contained in this clause shall be deemed to preclude the Corporation from granting loans or

advances to, or subscribing to debentures of, an industrial concern, which may at the option of the Corporation be convertible into stock or shares of that concern within the period the loan, advance or debenture is repayable ; and

(j) generally, the doing of all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

9.(1) The Development Bank may carry on and transact any of the following kinds of business, namely :

(a) granting loans and advances to—

(i) the Industrial Finance Corporation, any State Financial Corporation or any other financial institution which may be notified by the Central Government in this behalf, by way of refinance of any loans or advances granted to industrial concerns by such Corporation or institution which are repayable on the expiry of not less than three years and not more than twenty-five years ;

(ii) any scheduled bank or State co-operative bank, by way of refinance of any loans or advances granted to industrial concerns by such bank which are repayable on the expiry of not less than three years and not more than ten years ;

(iii) any scheduled bank or State co-operative bank or the Industrial Finance Corporation or any State Financial Corporation or any other financial institution which may be notified by the Central Government in this behalf, by way of refinance of any loans or advances granted to industrial concerns or group of industrial concerns by such bank or institution which are for the purpose of, or in connection with, the export of capital goods, commodities or merchandise from India and are repayable on the expiry of not less than six months and not more than ten years ;

(b) subject to such conditions as may be prescribed, accepting, discounting or rediscounting bills of exchange and promissory notes of industrial concerns ;

(c) subscribing to or purchasing stocks, shares bonds or debentures of the Industrial Finance Corporation, any State Financial Corporation or any other financial institution which may be notified by the Central Government in this behalf;

(d) granting loans and advances to any industrial concern or subscribing to, or purchasing, or underwriting the issue of, stocks, shares, bonds or debentures of any industrial concern:

Provided that nothing contained in this clause shall be deemed to preclude the Development Bank from granting loans or advances to, or subscribing to debentures of, an industrial concern, which may at the option of the Development Bank be convertible into stocks or shares of that concern within the period the loan, advance or debenture is repayable;

(e) guaranteeing deferred payments due from any industrial concern;

(f) guaranteeing—

(i) loans raised by industrial concerns which are floated in the public market; and

(ii) loans raised by industrial concerns from any scheduled bank or State co-operative bank or the Industrial Finance Corporation or any State Financial Corporation or any other financial institution which may be notified by the Central Government in this behalf;

(g) guaranteeing the obligations of any scheduled bank or State co-operative bank or the Industrial Finance Corporation or any State Financial Corporation or any other financial institution, which may be notified by the Central Government in this behalf, arising out of, or in connection with, underwriting the issue of stocks, shares, bonds or debentures of any industrial concern;

(h) undertaking research and surveys for evaluating or dealing with marketing or investments and undertaking and carrying on techno-economic studies in connection with the development of industry;

(j) planning, promoting and developing industries to fill up gaps in the industrial structure in India;

(k) forming or conducting of subsidiaries for carrying out its functions ;

(l) performing functions entrusted to, or required of, the Development Bank by this Act or by any other law for the time being in force ;

(m) doing any other kind of business which the Central Government, on the recommendation of the Reserve Bank, may authorise ;

(n) generally doing such other acts and things as may be incidental to, or consequential upon, the exercise of its powers or the discharge of its duties under this Act or any other law for the time being in force including sale or transfer of any of its assets.

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

(2) (i) To buy, underwrite, invest in and acquire and hold shares, stocks, debentures, debenture-stock, bonds, obligations and securities issued or guaranteed by any company or body corporate or unincorporated, or by a person or association.

(ii) To acquire any such shares, stocks, debentures, debenture-stock, bonds, obligations or securities by original subscription, participation in syndicates, tender, purchase, exchange or otherwise and to subscribe for the same either conditionally or otherwise, and to guarantee the subscription thereof and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof.

(8) To take part in the formation, management, supervision or control of the business or operations of any company or undertaking and for that purpose to render technical and managerial services and act as administrators, managers, secretaries, receivers, managing agents or in any other capacity, and to appoint and remunerate any directors, administrators, managers or accountants or other experts or agents and to share in the remuneration payable to Managing Agents of such company or undertaking.

(9) To form, manage, join or subscribe to any syndicate.

(10) To borrow or raise or secure the payment of money by the issue or sale of debentures, debenture-stock, bonds, obligations, mortgages and securities of all kinds, either perpetual or terminable and either redeemable or otherwise and to charge or secure the same by trust deed or otherwise on the undertaking of the Company including its uncalled capital, or upon any specific property and rights, present and future, of the Company or otherwise howsoever.

(12) To lend money with or without security and to make advances upon, hold in trust, issue, buy, sell, or otherwise acquire or dispose of, on commission or otherwise, any of the securities or investments of the kinds before mentioned, or to act as agent for any of the above or the like purposes.

(13) To facilitate and encourage the creation, issue or conversion of debentures, debenture-stock, bonds, obligations, shares, stocks and securities and to act as trustees in connection with any such securities and to take part in the conversion of business concerns and undertakings into companies.

(19) To promote, organise, manage, hold, dispose of or deal with shares or securities of Unit Trusts whether of fixed or variable character.

(24) To give guarantees, and carry on and transact every kind of guarantee and counter guarantee business.

(26) To undertake and subscribe for, conditionally or unconditionally, stocks, shares and securities of any other company.

(31) To receive money on time deposit, loan or otherwise, upon such terms as the Company may approve, and to give guarantees and indemnities in respect of the debts and contracts of others.

(35) To employ experts to investigate and examine into the condition, prospects, value, character and circumstances of any business concerns and undertakings, and generally of any assets, concessions, properties or rights.

(38) To draw, make, accept, endorse, discount, negotiate, execute and issue bills of exchange, promissory notes, and other negotiable or transferable instruments.

THE NATIONAL INDUSTRIAL DEVELOPMENT CORPORATION LIMITED OF INDIA

(1) To promote, establish and execute industries, projects or enterprises for manufacture and production of plant, machinery, tools, implements, materials, substances, goods or things of any description which in the opinion of the Company are likely to promote or advance the industrial development of India.

(2) To promote and operate schemes for industrial development of the country and for that purpose to prepare and get prepared reports, blue-prints, statistics and other information.

(3) To aid, assist and finance any industrial undertaking, project or enterprise, whether owned or run by Government, statutory body, private company, firm or individual, with capital, credit, means, or resources for prosecution of its work and business.

(4) To promote and establish companies and associations for the prosecution or execution of industrial undertakings, works, projects and enterprises of any description, whether of a private or public character, which in the opinion of the Company would contribute to the industrial development of India, and to acquire and dispose of shares and interest in such companies or associations or in any other companies or associations or in the undertakings thereof.

(5) To procure capital for or to provide machinery, equipment and other facilities to any company, person or association for the purpose of carrying into effect any objects connected with the industrial development of India, and to subscribe for or underwrite or otherwise deal with shares, debentures and securities of any such companies or persons or associations.

(6) To seek for and secure openings for the employment of capital in India and elsewhere, and with a view thereto to prospect, inquire, examine, explore and test, and to despatch and employ expeditions, commissioners, experts and other agents.

(7) To carry on all kinds of exploration business, and in particular to search for, prospect, examine and explore

mines and ground supposed to contain minerals or precious stones, and to search for and obtain information in regard to mines, mining claims, mining districts and localities and to purchase or otherwise acquire, and to sell, dispose of, and deal with mines and mining rights, and property supposed to contain minerals or precious stones of all kinds, and undertakings connected therewith, and to buy, sell, refine, manipulate and deal in minerals of all kinds.

(8) To construct, execute, carry out, equip, improve, work, develop, administer, manage or control public works and conveniences of all kinds, which expression in this Memorandum, includes railways, tramways, docks, harbours, piers, wharves, canals, reservoirs, bridges, embankments, irrigations, reclamation, improvement, sewage, drainage, sanitary, water, gas, electric light, telephonic, telegraphic and power supply works, and hotels, warehouses, markets and public buildings, and all other works or conveniences of public utility, and to apply for, purchase or otherwise acquire, any contracts, decrees, and concessions for or in relation to the construction, execution, carrying out, equipment, improvement, management, administration, or control of public works and conveniences, and to undertake, execute, carry out, dispose of or otherwise turn to account the same.

(9) To employ and remunerate experts to investigate and examine into the condition, prospects, value, character, and circumstances, of any business or industrial concern and undertaking, and generally of any assets, property, or rights.

(10) To carry on the business of engineers and manufacturers of agricultural and other machinery, plants, implements, and tools, equipments, apparatuses and accessories, rolling stock and other like goods and the production and working of metals and minerals of all kinds and the production, manufacture and preparation of any other materials which may be usefully or conveniently combined with the engineering or manufacturing business of the Company:

(11) To carry on in India or elsewhere the trade or business of purchasing, hiring, or otherwise acquiring, and making, building of or manufacturing railway carriages and wagons, and other carriages, wagons, carts, trucks, vehicles, locomotives, engines, rolling stock, and conveyances of all

kinds, whether for railway, tramway, road, field, or other traffic or purposes, and also rails and railways and tramway plant, and all machinery, materials and things applicable or used as accessory thereto and of letting or supplying all or any of the things herein before specified to coal proprietors, railway, and other companies and other persons, from year to year or for a term of years, or otherwise, at annual or other rents, and of repairing and maintaining the same respectively, whether belonging to this company or not, and of selling, exchanging, and otherwise dealing in the same respectively.

(12) To carry on the business of manufacturers of, dealers in, hirers, repairers, cleaners, storers and warehousers of motor cars, motor cycles, cycle cars, motors, scooter cycles, bycycles and carriages, launches, boats, vans, aeroplanes, hydroplanes, and other conveyances of all descriptions (hereinafter comprised in the term "motors and other things"), whether propelled or assisted by means of petrol, spirit, steam, gas, electrical, animal or other power, and of engines, chassis, bodies, and other things for, in or in connection with motors and other things, and to buy, sell, let on, hire, repair, alter and deal in machinery, component parts, accessories and fittings of all kinds for motors and other things and all articles and things referred to above or used in, or capable of being used in connection with the manufacture, maintenance and working thereof.

(13) To purchase, charter, hire, build or otherwise acquire steam and other ships or vessels or any share or interest therein with all equipments and furniture and to employ the same in the conveyance of passengers, mails, troops, munitions of war, live-stock, meat, corn and other produce and of treasure and merchandise of all kinds between such ports in any part of the world that may seem expedient and to acquire any postal subsidies.

(14) To sell, dispose of or transfer any industrial undertaking project or factory to any Company or association or concern on such terms and conditions as may be determined by the Company.

(15) To invest the capital of the Company in or to deal with shares, stocks, bonds, debentures, obligations and

other securities of any company or association formed for establishing, executing or working of any industrial undertaking approved by the Company.

(16) To act as Managers or to direct the management, control and supervision of any company, association or concern by nominating directors, controllers, supervisors, advisers or otherwise, or to collaborate with any company or association or concern formed for carrying on any manufacture or business within the objects of the Company.

(17) To enter into any partnership or arrangement for joint working in business, sharing of profits, pooling of any industrial undertaking, joint adventure or reciprocal concession or amalgamation, with any other company, firm or person, carrying on or engaged in any manufacture or business within the objects of this Company or similar thereto.

(18) To establish, promote, subsidise and otherwise assist, any company or companies, syndicate or other concern for the purpose of setting up any industry or running any industrial undertaking, acquiring any property or furthering any of the objects of this Company.

(19) To sell, dispose of, let on lease or on hire or transfer the business, property and undertakings of the Company, or any part thereof, for cash, stock or shares of any other company or for any other consideration which the Company may see fit to accept.

(23) To accept stock or shares in, or the debentures, mortgage debentures or other securities of any other company in payment or part payment for any services rendered or for any sale made to or debt owing from any such company.

(24) To grant or guarantee loans or advances to any company, association or concern engaged in any industry or to assist its development or expansion or to enable it to undertake and start new industry approved by the Company.

(25) To carry on any other business (whether manufacturing or otherwise) which may seem to the Company capable of being conveniently carried on in connection with the above or calculated directly or indirectly to enhance the value of or render profitable any of the Company's property or rights.

(26) To acquire and undertake the whole or any part of the business, property, and liabilities of any person or company carrying on any business which the company is authorised to carry on, or possessed of property suitable for the purposes of this Company.

(29) Generally to purchase, take on lease or in exchange, hire, or otherwise acquire any real and personal property and any rights or privileges which the Company may think necessary or convenient for the purposes of its business and in particular any land, building, easements, machinery, plant, and stock-in-trade.

(31) To construct, improve, maintain, develop, work, manage, carry out, or control any roads, ways, tramways, railways, branches or sidings, bridges, reservoirs, watercourses, wharves, manufactories, warehouses, electric works, shops, stores and other works and conveniences which may seem calculated directly or indirectly to advance the Company's interests.

(32) To develop and turn to account any land acquired by the Company or in which it is interested.

(35) To manufacture, buy, sell, import, export, instal, work and generally deal in, any plant, machinery, substances, tools, materials, goods or things of any description, which in the opinion of the Company may be conveniently dealt with by the Company in connection with any of its objects.

(36) To issue, or guarantee the issue of, or the payment of interest on the shares, debentures, debenture stock, or other securities or obligations of any company or association, and to pay or provide for brokerage, commission, and underwriting in respect of any such issue.

(37) To draw, make, accept, discount, execute, issue and negotiate, bills of exchange and promissory notes, debentures and other negotiable or transferable instruments.

(38) To borrow or raise or secure the payment of money in such manner as the Company shall think fit, and in particular by the issue of debentures, or debenture stock, perpetual or otherwise, charged upon all or any of the Company's property (both present and future), including its uncalled capital, and to purchase, redeem, or pay off any such securities.

(40) To lend money to such persons or companies and on

such terms as may seem expedient, and in particular to customers and others having dealing with the Company, and to guarantee the performance of contracts by any such persons or companies.

(42) To acquire by subscription, purchase or otherwise, and to accept and take, hold and sell, shares or stock in any company, society or undertaking, the objects of which shall, either in whole or in part, be similar to those of this Company, or such as may be likely to directly or indirectly promote or advance the interests of this Company.

(43) To establish, maintain, subscribe to or subsidise or become member of training institutions, research laboratories, research institutions and experimental workshops for scientific and technical research and experiments.

(49) Generally to do all such other matters and things as may appear to be incidental or conducive to the attainment of the above objects or any of them or consequential upon the exercise of its powers or discharge of its duties.

INDUSTRIAL DEVELOPMENT CORPORATION OF NEPAL

The Corporation may, subject to the provisions of this Act, carry on or transact any of the following business, namely;

(a) to participate in, or otherwise assist all types of private industrial enterprises which the Corporation deems to be technically feasible and economically sound;

(b) to extend financial assistance to industrial concerns of Nepal for developing, modernizing and improving the condition of such concerns by extending credit against adequate security or by common stock participation or by any other means notwithstanding the fact that the Corporation has or has no interest therein as shareholder or otherwise.

(c) to guarantee, on such terms and conditions as may be decided upon, the loans raised by industrial concerns through commercial banking facilities in Nepal;

(d) to engage in industrial consultation and training, raw material and product laboratory analysis, survey of markets, credit investigation, promotion of private foreign investment, compilation and dissemination of industrial and commercial information relating to investment.

(e) to encourage Nepalese citizens to purchase its shares;

(f) to purchase and sell shares, stocks, bonds & debentures of industrial concerns when done in the interest of furthering industrial development.

(g) to issue preferred and debenture shares and to borrow money ;

(h) to purchase and sell and to engage in all types of activities as to movable and immovable properties ;

(i) to furnish the Government and the industrialists financial advice and technical guidance as may be requested ;

(j) to receive fees or commission for the performance of services to any industrial concern ;

(k) to enter into any kind of banking transaction with domestic and foreign banks ;

(l) to establish new industrial concerns and for that to encourage companies and to effect the sale of its participation or ownership in industrial concerns at any time and as soon as practicable in order to make the resources re-available to the Corporation.

(m) to do all such things as may be incidental to or consequential upon the exercise of its powers and discharge of its duties under the Act and for the purpose of carrying into effect the objectives of this Act.

DEVELOPMENT BANK OF INDONESIA

(1) The Bank is set up with the aim to assist the Government in financing overall development activities.

(2) a. to extend loans for investment purposes within the framework of the financing of overall development projects, which loans can be repaid from the proceeds of said projects or can be repaid owing to an increase in the aggregate income of the country due to the existence of said projects ;

b. to accumulate savings from the community ;

c. to raise domestic loans ;

d. to raise foreign loans, both in foreign currencies and in rupiahs ;

e. to proceed to other activities which may be deemed in conformity with the Bank's task.

6. PROHIBITED BUSINESS

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

25. The Bank shall not
  (a) buy or hold any stock, bonds or debentures, except as provided by sections 15, 16 and 23, and by paragraph (a) of section 24, or
  (b) accept deposits, except as provided by paragraph (b) of section 24.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

30. The Bank shall not undertake or transact any kind of business other than those authorized by or under this Ordinance, and, in particular, it shall not—
  (a) make any advance or loan—
    (i) upon the security of its shares, or
    (ii) except as provided in section 29, to any concern other than an industrial concern, and
  (b) discount or buy, or advance, lend or open cash-credit on the security of, and negotiable instrument of any individual or partnership firm which does not carry on it the several responsibilities of at least two persons or firms not connected with each other in general partnership.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

26. The Corporation shall not—
  (a) accept deposits except as provided by this Act ;
  (c) grant any loan or advance on the security of its own shares.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

9.(3) The Development Bank shall not grant any loan or advance or other financial accommodation on the security of its own bonds or debentures.

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

20. Except to the extent allowed by Section 77 of the Act, no part of the funds of the Company shall be employed in the purchase of or lent on the security of the shares of the Company.

7. OPERATIONAL POLICY—SECURITY—RIGHTS UNDER AND REALIZATION OF SECURITY

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

16.(1) The Bank may take, accept or acquire and may hold security of any kind and in any form for the discharge of obligations under any loan made or guaranteed or agreement made by it under this Act, and without limiting the generality of the foregoing, may for such purpose take, accept or acquire and hold as security,

(a) stock, bonds or debentures of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, provincial, British, foreign and other public securities;

(b) warehouse receipts and bills of lading;

(c) goods, wares and merchandise; and

(d) mortgages of hypotheses of any real or personal, movable or immovable property;

17.(1) In the event of any default in payments due under any loan made or guaranteed or agreement made by the Bank, the Bank may sell and transfer any stock, bonds, debentures or securities acquired and held by it under this Act in respect of the loan or agreement, in the manner and subject to the conditions following, namely:

(a) the Bank shall give notice to the owner thereof of its intention to sell the stock, bonds, debentures or securities by mailing the notice in the post office, postpaid, to the last known address of the owner, as shown by the records of the Bank;

(b) the Bank may, on the expiration of at least thirty days after the mailing of such notice, sell the stock, bonds, debentures or securities; and

(c) upon such sale being made, the President or other officer of the Bank authorized in that behalf may execute a transfer of the stock, bonds, debentures or

securities to the purchaser thereof in the appropriate form and manner.

18.(1) Any warehouse receipt or bill of lading acquired and held by the Bank as security under this Act, vests in the Bank from the date of the acquisition thereof,

(a) all the right and title to such warehouse receipt or bill of lading and to the goods, wares and merchandise covered thereby of the previous holder or owner thereof ; or

(b) all the right and title to the goods, wares and merchandise mentioned therein of the person from whom such goods, wares and merchandise were received or acquired by the Bank, if the warehouse receipt or bill of lading is made directly in favour of the Bank, instead of to the previous holder or owner of such goods, wares and merchandise.

19.(1) Security upon such goods, wares, and merchandise may be given to the Bank under this Act in the same form and mode by which security upon goods, wares and merchandise may be given under section 88 of the Bank Act to a bank incorporated by the Bank Act.

(2) Delivery of a document giving security upon goods, wares and merchandise to the Bank under the authority of this section, vests in the Bank in respect of goods, wares and merchandise therein described.

(a) of which the person giving the security is the owner at the time of the delivery of such document, or

(b) of which such person becomes the owner at any time thereafter before the release of the security by the Bank, whether or not such goods, wares and merchandise are in existence at the time of such delivery.

the same rights and powers as if the Bank had acquired a warehouse receipt or bill of lading in which, such goods, wares and merchandise were described ; and all such goods, wares and merchandise in respect of which such rights and powers are vested in the Bank under this section, are for the purposes of this Act, goods, wares and merchandise covered by the security.

20.(1) Where goods, wares and merchandise are manu-

factured or produced from the goods, wares and merchandise or any of them mentioned in or covered by a warehouse receipt acquired or held by the Bank or by any security given to the Bank under section 19, the Bank has the same rights and powers in respect of the goods, wares and merchandise so manufactured, as well during the process of manufacture as after the completion thereof, and for the same purposes and upon the same conditions, as it had with respect to the original goods, wares and merchandise.

(2) All the rights and powers of the Bank in respect of goods, wares and merchandise mentioned in or covered by a warehouse receipt or bill of lading acquired and held by the Bank or by a security given to the Bank under section 19, have, subject to the provisions of subsection (3) of section 19, priority over all rights subsequently acquired in, on or in respect of such goods, wares and merchandise, and also over the claim of any unpaid vendor, but such priority shall not be given over the claim of any such unpaid vendor who had a lien on the goods, wares and merchandise at the date of the acquisition by the Bank of such warehouse receipt, bill of lading or security unless the same was acquired without the knowledge on the part of the Bank of such lien.

21. In the event of non-payment at maturity of any loan made or guaranteed by the Bank as security for the payment of which the Bank has acquired and holds a warehouse receipt or bill of lading, or has taken any security under section 19 the Bank may sell the goods, wares and merchandise mentioned therein or covered thereby or so much thereof as will suffice to pay such loan, with interest and expenses returning the surplus, if any, to the person by whom such security was given; but such sale shall, unless such person has agreed to sale thereof otherwise than as herein provided, be made by public auction after

(a) notice of the time and place of the sale has been given.

(b) publication of an advertisement of the sale, at least two days prior to such sale, in at least two newspapers.

22.(1) The Bank may acquire and hold an absolute title in or to real or immovable property mortgaged or hypothecat-

ed to it as security for the due discharge of obligations under a loan made or guaranteed or agreement made by it, either by obtaining a release of the equity of redemption in the mortgaged property or by procuring foreclosure of the mortgage or by purchase at a judicial sale of the hypothecated property or by any means whereby, as between individuals, an equity of redemption can, by law, be barred or a transfer of title can be effected, and may purchase and acquire any prior mortgage, hypothec or charge on such property.

(2) The Bank may sell or otherwise dispose of any real or immovable property and may take or hold mortgages, hypothecs, liens and charges to secure payment of the purchase price, or for any unpaid balance of the purchase price, and may act upon any power to sell contained in any mortgage held by the Bank, authorizing or enabling it to sell or convey any property so mortgaged.

23. Notwithstanding sections 17, 18, 19, 20, 21 and 22 and without in any way limiting or restricting any of the rights or powers conferred on the Bank by those sections, security of any kind and in any form may be taken, accepted, acquired, held, sold, transferred, conveyed or otherwise in any way dealt with, disposed of or realized on by the Bank in the same manner as by a private individual and the Bank has and may exercise all the rights, powers and privileges in respect thereof that a private individual would have or might exercise in like circumstances.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

28.(3) No guarantee, loan or subscription provided for in clauses (2) and (3) of section 27 shall be made—

(a) the aggregate amount of which exceeds,—

(i) in the case of an industrial concern not incorporated under the Companies Act, 1913, five lakhs of rupees, or

(ii) in the case of any other concern, ten lakhs of rupees including its foreign exchange component to the extent of five lakhs of rupees, except with the prior approval of the Central Government.

(b) which is not secured by pledge, mortgage, hypothecation or assignment of any property, movable or immovable, to the extent determined by the Board or by a contract to mortgage, hypothecate or assign any property which may be acquired in future with or without financial assistance of the Bank; and

(c) which has not been considered in the light of the report thereon by the Technical Advisory Committee:

Provided that the limit specified in clause (a) shall not apply—

(i) to mining, jute, cotton, inland transport and such other industry as the Central Government may direct the Bank to finance beyond that limit; or

(ii) to any concern in any other industry which the Central Government, either on its own initiative or on the recommendations of the Board, may exempt from that limit.

39. (1) Where by reason of the breach of any condition of any agreement between the Bank and an industrial concern, the Bank becomes entitled to require the immediate payment of any loan before the due date, or where an industrial concern fails to repay such loan by the due date or in compliance with the notice under section 38, an officer of the Bank, generally or specially authorized by the Board in his behalf, may apply to the District Judge within the local limits of whose jurisdiction the concern carries on the whole or a substantial part of its business, for one or more of the following reliefs, namely:

(a) an order for the sale of the property pledged, mortgaged, hypothecated or assigned to the Bank as security for the loan, or

(b) transfer of the management of the concern to the Bank, or

(c) an injunction *ad interim* where there is apprehension that machinery or equipment may be removed from the premises of the concern without the permission of the Board.

(2) As application under sub-section (1) shall state the nature and extent of the liability of the concern to the Bank, the ground on which it is made and such other particulars as may be prescribed by rules.

(3) When the application is for the relief mentioned in clause (a) or clause (c) of sub-section (1), the District Judge shall pass an order *ad interim* attaching the property referred to in clause (a) as aforesaid or such other property of the concern as is likely in his estimation to fetch, on being sold, an amount equivalent to the outstanding liability of the concern to the Bank together with the costs of the proceedings taken under this section, with or without an injunction *ad interim* restraining the concern from transferring or removing any machinery or equipment without the consent of the Bank.

(4) Where the application is for the relief mentioned in clause (b) of sub-section (1), the District Judge shall grant an injunction *ad interim* restraining the concern from transferring or removing its machinery or equipment and shall issue a notice calling upon the concern to show cause on a date to be specified in the notice why the management of the concern should not be transferred to the Bank.

(6) At the time of passing an order under sub-section (3), the District Judge shall issue to the concern a notice accompanied by a copy of the order, the application and evidence, if any, recorded by him and calling upon it to show cause on a date to be specified in the notice why the order of attachment *ad interim* should not be made absolute or the injunction be not confirmed.

(7) If no cause is shown on or before the date specified in the notice under sub-section (4) or sub-section (6), the District Judge shall forthwith make the order *ad interim* absolue and direct the sale of the attached property or transfer the management of the concern to the Bank or confirm the injunction.

(8) If cause is shown the District Judge shall proceed to investigate the claim of the Bank and the provisions of the Code of Civil Procedure, 1908 (Act V of 1908), shall as far practicable, apply to such proceedings.

(9) On completing an investigation under sub-section (8) the District Judge shall pass an order—

(a) confirming the order of attachment or directing the sale of the attached property, or

(b) varying the order of attachment so as to release a por-

tion of the property from attachment and directing the sale of the remainder of the attached property, or

(c) releasing the property from attachment, if he is satisfied that it is not necessary in the interests of the Bank to retain it under attachment, or

(d) confirming or vacating the injunction, or

(e) transferring or refusing to transfer the management of the concern to the Bank ;

Provided that when making any order under clause (c), the District Judge may make such further orders as he thinks necessary to protect the interests of the Bank and may apportion the cost of the proceedings in such manner as he thinks fit:

Provided further that unless the Bank intimates to the District Judge that it will not appeal against any order releasing any property from attachment such order shall not be executed until the expiry of the period mentioned in sub-section (11), or if an appeal is preferred, unless the High Court otherwise directs, until the appeal is disposed of.

(10) An order under this section for the attachment or sale of property shall be carried into effect as far as may be in the manner provided in the Code of Civil Procedure, 1908 (Act V of 1908), for the attachment or sale of property in execution of a decree as if the Bank were the decree-holder.

(11) Any party aggrieved by an order under sub-section (7) or sub-section (9) may, within thirty days from the date of the order, appeal to the High Court, and upon such appeal the High Court may, after hearing the parties, pass such orders as it thinks proper.

(12) Nothing in this section shall be construed, where proceedings for liquidation in respect of the industrial concern have commenced before an application is made under sub-section (1), as giving the Bank any preference over other creditors of the concern not conferred on it by any other law for the time being in force.

40.(1) Where any industrial concern which is under a liability to the Bank under an agreement makes any default in payment or otherwise fails to comply with the terms of its agreement with the Bank, the Bank may, notwithstanding

anything contained in section 39, take over the management of the concern, and may sell or realise any property pledged, mortgaged, hypothecated or assigned by the concern to secure its liability to the Bank.

(2) Any transfer of property made by the Bank in exercise of its powers of sale or realisation under sub-section (1) shall vest in the transferee all rights in or to the property transferred as if the sale had been made by the owner of the property.

(3) The Bank shall have the same rights and powers with respect to goods manufactured or produced wholly or partly from goods forming part of any security held by it as it has with respect to the original goods.

(4) Where the Bank takes over the management of a concern under sub-section (1) it shall be deemed to be owner of such concern for purposes of suits by or against such concern, and shall sue and be sued in the name of the concern.

41. Without prejudice to the provisions of section 39 and 40, all sums due to the Bank shall be recoverable as arrears of land revenue:

Provided that no sum shall be so recovered unless fifteen days notice has first been given by the Bank to the debtor that the sum will be so recovered:

Provided further that in so giving notice the Bank shall inform the debtor that he may pay by such instalments as may be fixed in the notice and that upon his so paying every instalment on or before the due date the recovery will be suspended but that it will otherwise proceed as to the entire sum outstanding in case of any default in any instalment including the first.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

23.(2) No accommodation shall be given under (clauses (a), (b), (c) and (i) of sub-section (1), unless it is secured by a sufficient pledge, mortgage, hypothecation or assignment of Government or other securities, stocks, shares or secured debentures, bullion, movable or immovable property or other tangible assets in the manner prescribed by regulations (or

unless it is guaranteed as to the repayment of principal and the payment of interest by the Central Government, State Government, a scheduled bank or a State Co-operative Bank.

24. The Corporation shall not enter into any arrangement under (clauses (a) and (i) of sub-section (1)) of section 23 with a single industrial concern for an amount exceeding two crores of rupees in the aggregate:

Provided that the aforesaid limit of two crores of rupees may be exceeded with the prior approval of the Central Government.

25.(1) In entering into any arrangement under section 23 with an industrial concern, the Corporation may impose such conditions as it may think necessary or expedient for protecting the interests of the Corporation, and securing that the accommodation granted by it is put to the best use by the industrial concern.

(2) Where one of the conditions imposed is that (one or more Directors) shall be appointed by the Corporation on the Board of Directors of the industrial concern to protect the interests of the Corporation, such condition shall be valid notwithstanding anything contained in (the Companies Act, 1956), or (any other law for the time being in force or in any instrument relating to the industrial concern) (and nothing in the said Act or in any such law or instrument in so far as it makes, in relation to a director, any provision for the holding of any share qualification, age limit, restrictions on the number of directorships, retirement by rotation or removal from office shall apply to any Director appointed by the Corporation in pursuance of this section.

28.(1) Where any industrial concern which is under a liability to the Corporation under an agreement makes any default in repayment (of any loan or advance or any instalment thereof) or otherwise fails to comply with the terms of its agreement with the Corporation, the Corporation shall have the right to take over the management of the concern, as well as the (right to transfer by way of lease or sale) and realise the property pledged, mortgaged, hypothecated or assigned to the Corporation.

30.(1) Where an industrial concern, in breach of any agreement, makes any default in repayment of any loan or ad-

vance or any instalment thereof or otherwise fails to comply with the terms of its agreement with the Corporation or where the Corporation requires an industrial concern to make immediate repayment of any loan or advance under section 29 and the industrial concern fails to make such repayment, then, without prejudice to the provisions (of section 28 of the Act and of section 69 of the Transfer of Property Act, 1882) an officer of the Corporation generally or especially authorised by the Board in this behalf may apply to the District Judge within the local limits of whose jurisdiction the industrial concern carries on the whole or a substantial part of its business for one or more of the following reliefs, namely :

(a) for an order for the sale of the property pledged, mortgaged, hypothecated or assigned to the Corporation as security for the loan or advance, or

(b) for transferring the management of the industrial concern to the Corporation, or

(c) for an ad interim injunction where there is apprehension of the machinery or the equipment being removed from the premises of the industrial concern without the permission of the Board.

(3) When the application is for the reliefs mentioned in sub-clauses (a) and (c) of sub-section (1) the District Judge shall pass an *ad interim* order attaching the security or so much of the property of the industrial concern as would on being sold realise in his estimation an amount equivalent in value to the outstanding liability of the industrial concern to the Corporation together with the costs of the proceedings taken under this section with or without an *ad interim* injunction restraining the industrial concern from transferring or removing its machinery or equipment.

(4) Where the application is for the relief mentioned in sub-clause (b) of sub-section (1) the District Judge shall grant an *ad interim* injunction restraining the industrial concern from transferring or removing its machinery or equipment and issue a notice calling upon the industrial concern to show cause on a date to be specified in the notice why the management of the industrial concern should not be transferred to the Corporation.

(6) At the same time as he passes an order under sub-section (3), the District Judge shall issue to the industrial concern a notice accompanied by copies of the order, the application and the evidence, if any, recorded by him, calling upon it to show cause on a date to be specified in the notice why the *ad interim* order of attachment should not be made absolute or the injunction confirmed.

(7) If no cause is shown on or before the date specified in the notice under sub-sections (4) and (6), the District Judge shall forthwith make the *ad interim* order absolute and direct the sale of the attached property or transfer the management of the industrial concern to the Corporation or confirm the injunction.

(8) If cause is shown the District Judge shall proceed to investigate the claim of the Corporation and the provisions of the Code of Civil Procedure, 1908, shall as far as practicable apply to such proceedings.

(9) On an investigation made under sub-section (8) the District Judge shall pass an order—

(a) confirming the order of attachment and directing the sale of the attached property, or

(b) varying the order of attachment so as to release a portion of the property from attachment and directing the sale of the remainder of the attached property, or

(c) releasing the property from attachment, if he is satisfied that it is not necessary in the interests of the Corporation. or

(d) confirming or dissolving the injunction, or

(e) transferring the management of the industrial concern to the Corporation or rejecting the claim made in this behalf :

Provided that when making any order under clause (c), the District Judge may make such further orders as he thinks necessary to protect the interests of the Corporation, and may apportion the costs of the proceedings in such manner as he thinks fit :

Provided further that unless the Corporation intimates to the District Judge that it will not appeal against any order releasing any property from attachment, such order

shall not be given effect to until the expiry of the period fixed under sub-section (11) within which an appeal may be preferred, or if an appeal is preferred, unless the High Court otherwise directs until the appeal is disposed of.

(10) An order of attachment or sale of property under this section shall be carried into effect as far as may be practicable in the manner provided in the Code of Civil Procedure, 1908 for the attachment or sale of property in execution of a decree, as if the Corporation were the decree-holder.

30A.(1) When the management of an industrial concern is taken over by the Corporation, the Corporation may, by order notified in the Official Gazette, appoint as many persons as it thinks fit to be the Directors of that industrial concern, (and nothing in the Companies Act, 1956, or in any such law or instrument relating to the industrial concern in so far as it makes, in relation to a Director, any provision for the holding of any share qualification, age limit, restrictions on the number of directorships, retirement by rotation or removal from office shall apply to any Director appointed by the Corporation under this section.

(2) The power to appoint Directors under this section includes the power to appoint any individual, firm or company to be the managing agents of the industrial concern on such terms and conditions as the Corporation may think fit.

32A.(1) All dividends accruing on the shares of the Corporation held by the Central Government and the Reserve Bank shall, instead of being paid to them be credited to a special reserve fund until the aggregate of the sums so credited exceeds fifty lakhs of rupees.

(2) No shareholder of the Corporation other than the Central Government or the Reserve Bank shall have any claim to the special reserve fund referred to in sub-section (1).

INDUSTRIAL DEVELOPMENT CORPORATION OF NEPAL

20.(1) The Corporation, while transacting any business with any enterprise or providing loans to any enterprise,

may put such terms and conditions as may be deemed necessary for safeguarding its interest as well as for the proper utilization of loan or facilities provided, and may, notwithstanding anything contained in the existing Nepal, Companies Act or any other law for the time being in force, fix such terms of payment as it may deem fit and realise such amount disbursed, and the interest thereon from the borrower prior to the date of amortization as agreed in the Loan Agreement, and realise from the properties hypothecated, if the terms and conditions of the Loan Agreement are not complied with.

(2) Where one of the conditions imposed under Sub-section (1) is that one or more directors shall be appointed by the Corporation on the board of directors of the industrial concern, such condition shall be a valid condition, notwithstanding anything contained in the Nepal Companies Act or any other law for the time being in force or any effective instrument relating to such industrial concern.

(3) The interest shall be charged from the date of disbursement of instalment.

(4) In making loan to new industries for the procurement of necessary machinery or construction of necessary building, the Corporation may grant loan against the securities of machineries to be procured or buildings to be constructed out of that loan amount.

21. Rights of Corporation in case of default :

(1) Where any industrial concern, which is under a liability to the Corporation under an agreement, makes any default in repayment of any loan or advance or any instalment thereof or otherwise fails to comply with the terms of its agreement with the Corporation, the Corporation shall have the right to sell and realise the property pledged, mortgaged, hypothecated or assigned to the Corporation.

(2) Any transfer of property made by the Corporation in exercise of its powers under Sub-section (1) shall vest in the transferee all rights in the property so transferred as if the sale had been made by the owner of the property.

(3) Where any property is sold or realized by the Corporation under the provisions of this Section, the money

which is received by it therefrom shall, in the absence of any contract to the contrary, be applied firstly in payment of all costs, charges, and expenses properly incurred by it incidental to the said sale and realisations ; secondly, in the discharge of the debt due to the Corporation, and the balance shall be paid to the person entitled thereto.

22. Power to call for Repayment before the Expiry of the Contract Period :

Notwithstanding anything contained in the agreement, the Corporation may by notice in writing require any industrial concern to which it has granted any loan or advance to discharge in full its liabilities to the Corporation : if,

(a) It appears to the Board that false or misleading information in any particular matter, was given by the concern in its application for the loan or advance ; or

(b) the industrial concern has failed to comply with the term of its contract with the Corporation in the matter of the loan or advance ;

(c) there is a reasonable apprehension that the industrial concern is unable to pay its debts or that proceedings for liquidation may be commenced in respect thereof ; or

(d) the property pledged, mortgaged, hypothecated or assigned to the Corporation as security for the loan or advance is not insured by the industrial concern to the satisfaction of the Corporation or depreciated in value to such an extent that, in the opinion of the Board, further security to the satisfaction of the Board should be given and such security is not given.

8. PROFITS AND RESERVE FUND

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

26.(1) The Bank shall establish a Reserve Fund.

(2) The profits of the Bank available from the operations in each fiscal year remaining after making such provision as the Board thinks proper for bad and doubtful debts, depreciation in assets and all such other matters as are properly provided for by banks, shall be applied by the Board as follows :

(a) if the Reserve Fund of the Bank is less than its paid-up capital, the whole of such remaining profits shall be credited to the Reserve Fund ; and

(b) if the Reserve Fund of the Bank is not less than its paid-up capital, such remaining profits may be applied in payment of a dividend not exceeding 4 per cent on its paid-up capital, but any surplus remaining after the payment of such dividend, or, if no dividend is paid, the remaining profits, shall be credited to the Reserve Fund.

THE INDUSTRIAL DEVELOPMENT BANK OF BURMA

134. The Directors may before recommending any dividend, set aside out of the profits of the Bank such sums as they may think proper for Depreciation or to a Depreciation Fund or as Reserve or to a Reserve Fund or Sinking Fund or any Special Fund to meet contingencies or to repay Redeemable Preference Shares or Debentures or for payment of dividends or for equalising dividends or for repairing, improving, extending and maintaining any part of the property of the Bank, or for such other purposes as the Directors may in their absolute discretion think conducive to the interests of the Bank.

135. The Directors shall every year after the expiry of 5 years from the incorporation of the Bank before recom-

mending any dividend, set aside out of the profits of the Bank for that year, which would be otherwise available for dividend a minimum of 25 per cent thereof towards a Reserve Fund to meet contingencies and for such other purposes other than the payment of the dividends as the Directors shall in their absolute discretion think conducive to the interests of the Bank until the total sum standing to the credit of such Reserve Fund shall amount to a sum equal to the amount of issued share capital at that time.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

34.(1) The Bank shall establish a Reserve Fund to which shall be credited such amount out of its net annual profit as the Board may determine.

(2) After deducting the amount under sub-section (1) and making provision for bad and doubtful debts, depreciation of assets and such other matters as are usually provided for by bankers or are considered expedient in the interest of the Bank, the Bank may, out of the surplus remaining from that net annual profit, declare such dividend as may be approved by the Central Government.

DEVELOPMENT FINANCE CORPORATION OF CEYLON

13.(2) So long as there is outstanding any loan made by the Government to the Corporation under sub-section (1),—

(a) the Corporation shall set aside in each year in a Special Reserve Fund a sum equal to not less than 20 per centum of the net profits of the Corporation as shown in the Corporation's financial statement for that year, until the amount so set aside equals the amount of the Government loan then outstanding, and

(b) the Corporation shall not in any year declare or pay dividends in excess of 12 per centum on the share capital of the Corporation.

(3) Amounts set aside in the Special Reserve Fund under sub-section (2) shall not be used for the business of the Corporation but may be invested in accordance with the provisions of this Act.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

32.(1) The Corporation shall establish a reserve fund.

(2) After making provision for bad and doubtful debts, depreciation of assets and all other matters which are usually provided for by bankers, the Corporation may out of its net annual profits declare a dividend :

Provided that for so long as the reserve fund is less than the paid up share capital of the Corporation and until there has been repaid to the Central Government such sums, if any, as that Government may have paid under the guarantee given in pursuance of section 5 or under any guarantee given in pursuance of sub-section (2) of section 21 (or sub-section (2) of section 27), the rate of such dividend shall not exceed the rate guaranteed by the Central Government under section 5 ;

Provided further that under no circumstances shall any such dividend exceed the rate of five per cent per annum and if in respect of any financial year after the reserve fund becomes equal to the share capital of the Corporation there is, after declaring a dividend at that rate any surplus in the net profits, such surplus shall be paid to the Central Government.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

22.(1) The Development Bank may establish a reserve fund to which may be transferred such sums as that bank may deem fit out of the annual profits accruing to the General Fund.

(2) After making provision for bad and doubtful debts, depreciation of assets and for all other matters for which provision is necessary or expedient or which is usually provided for by bankers and for the reserve fund referred to in sub-section (1), the Development Bank shall transfer the balance of the net profits to the Reserve Bank.

INDUSTRIAL DEVELOPMENT CORPORATION OF NEPAL

(1) The Corporation shall establish a reserve fund.

(2) After making provisions for bad and doubtful debts,

depreciation of assets and all other matters which are usually provided for by banking companies, the Corporation may declare a dividend.

DEVELOPMENT BANK OF INDONESIA

(5) The utilization of the annual net profits of the Bank, after deduction of the amounts to be set aside for reserve purposes, is determined by the Government with due observance of the recommendations of the Development Board.

9. AUDIT AND RETURNS

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

27.(1) The affairs of the Bank shall be audited by the two auditors appointed by the Governor in Council to audit the affairs of the Bank of Canada.

(2) The Minister of Finance may from time to time require the auditors to report to him upon the adequacy of the procedure adopted by the Bank for the protection of its creditors and shareholders and as to the sufficiency of their own procedure in auditing the affairs of the Bank; and the Minister of Finance may, at his discretion, enlarge or extend the scope of the audit or direct that any other procedure be established or that any other examination be made by the auditors as the public interest may seem to require.

(3) A copy of every report made by the auditors to the Bank under this section shall be transmitted to the Minister of Finance by the auditors at the same time as such report is made to the Bank.

29.(1) The Bank shall, within twenty-one days following the end of each calendar month, make up and transmit to the Minister of Finance in such form as he may prescribe, a statement of its assets and liabilities at the close of business on the last day of the preceding month.

(2) The Bank shall make up and transmit to the Minister of Finance at least once in its fiscal year or more frequently if so directed by the Minister, in such form as he may prescribe, a classification of its loans and investments and of the loans guaranteed by it.

(3) The Bank shall within ten weeks after the end of each fiscal year, transmit to the Minister of Finance in such form as he may prescribe, a statement of its accounts for the fiscal year, together with such summary or report by the President as he may deem desirable or as may be required by the Minister of Finance.

(4) A copy of the accounts and of the President's report shall within fourteen days after the receipt thereof by the

Minister of Finance be laid before Parliament if Parliament is then sitting, or if Parliament is not sitting, it shall be laid before Parliament within fourteen days after the commencement of the next ensuing session.

(5) A copy of each statement required under sub-sections (1) and (2) shall be published in the next succeeding issue of the *Canada Gazette.*

THE INDUSTRIAL DEVELOPMENT BANK OF BURMA

146. Auditors shall be appointed with the prior approval of the President and their duties regulated in accordance with the provisions of the Statutes, but so that the remuneration of the Auditors may be fixed by the Directors.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

35.(1) The accounts of the Bank shall be audited by not less than two chartered accountants within the meanings of the Chartered Accountants Ordinance, 1961, appointed from amongst those approved in this behalf by the Central Government by the shareholders at the general meeting on such remuneration to be paid by the Bank as the shareholders may fix.

(4) The Central Government may, at any time issue directions to the auditors requiring them to report to it upon the adequacy of measures taken by the Bank for the protection of its shareholders and creditors or upon the sufficiency of their procedure in auditing the affairs of the Bank, and may, at any time, enlarge or extend the scope of the audit or direct auditors requiring them to report to it upon the adquacy of measures to be made by the auditors if in its opinion the public interest so requires.

36. Without prejudice to anything contained in section 35, the Central Government may appoint such auditors as it thinks fit to examine and report on the accounts of the Bank.

37(1) The Bank shall furnish to all shareholders, and may cause to be published in the official Gazette and in such daily newspapers as the Board may decide, within ten days of the date to which the statement relates, a statement in the

prescribed form of its assets and liabilities as they stand at the close of business on the last Friday of each month, or, if that day is a public holiday under the Negotiable Instruments Act, 1881 (XXVI of 1881), as they stand as at the close of business on the preceding working day.

(2) The Bank shall furnish in the prescribed form to the Central Government at least once a year, or as frequently as the Central Government may require, a classification of its loans and investments, and all loans guaranteed by it and underwriting agreements entered into by it.

(3) The Bank shall furnish to the Central Government within three months of the close of the financial year an audited statement in the prescribed form of its assets and liabilities as they stand at the close of that year together with a profit and loss account for the year and a report on the working of the Bank during the year, and shall also publish the said statement, account and report in the official Gazette.

DEVELOPMENT FINANCE CORPORATION OF CEYLON

16.(1) The accounts of the Corporation shall be audited by two qualified auditors annually appointed at a meeting of the shareholders of the Corporation.

(5) Each auditor of the Corporation shall make a written report upon the annual balance-sheet and accounts of the Corporation.

(7) The Board of Directors shall cause a copy of the report of each auditor of the Corporation together with a copy of the balance-sheet and profit and loss account to which such report refers to be transmitted to each shareholder and to the Minister of Finance.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

34.(1) The affairs of the Corporation shall be audited by not less than two auditors duly qualified to act as auditors of companies, one of whom shall be appointed by the Central Government in consultation with the Comptroller and Auditor-General of India and (the other auditor or auditors) elected

in the prescribed manner by the parties mentioned in sub-section (3) of section 4 and such remuneration as the Central Government may fix shall be paid to the auditors by the Corporation.

(4) The Central Government may (in consultation with the Comptroller and Auditor-General of India) at any time issue directions to the auditors requiring them to report to it upon the adequacy of measures taken by the Corporation for the protection of its shareholders and creditors or upon the sufficiency of their procedure in auditing the affairs of the Corporation, and may at any time enlarge or extend the scope of the audit or direct that a different procedure in audit be adopted or direct that any other examination be made by the auditors if in its opinion the public interest so requires.

(5) The Corporation shall send a copy of every report of the auditors to the Comptroller and Auditor-General of India at least one month before it is placed before the shareholders.

(6) Notwithstanding anything contained in the preceding sub-sections, the Comptroller and Auditor-General of India may, either of his own motion or on a request received in this behalf from the Central Government, undertake such audit and at such times as he may consider necessary.

Provided that where the Central Government is required to make any payment on account of the guarantee given by it under section 5 or sub-section (2) or section 21 or sub-section (2) of section 27, as the case may be, such audit shall be undertaken by the Comptroller and Auditor-General of India.

(7) Every audit report shall be forwarded to the Central Government and the Government shall cause the same to be laid before both Houses of Parliament.

35.(1) The Corporation shall furnish a statement in the prescribed form of its assets and liabilities as at the close of business on the last Friday of each month, or if that day is a public holiday under the Negotiable Instruments Act, 1881, as at the close of business on the preceding working day, to all shareholders within ten days from the date to which the statement relates.

(2) The Corporation shall furnish in the prescribed form to the Central Government and to the Reserve Bank at least once in every year or as frequently as the Central Government or the Reserve Bank may require (a statement showing the classification) of its loans and investments and of loans guaranteed by it and underwriting agreements entered into by it.

(3) The Corporation shall furnish to the Central Government and the Reserve Bank within (four months) of the close of the financial year a statement in the prescribed form of its assets and liabilities as at the close of that year together with a profit and loss account for the year and a report of the working of the Corporation during the year, and copies of the said statement, account and report shall be published in the Official Gazette and shall be laid before (Parliament).

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

23.(1) The accounts of the Development Bank shall be audited by auditors duly qualified to act as auditors under sub-section (1) of section 226 of the Companies Act, 1956 who shall be appointed by the Reserve Bank for such term and on such remuneration as the Reserve Bank may fix.

(5) The Development Bank shall furnish to the Reserve Bank within four months from the date on which its accounts are closed and balanced, a copy of its balance-sheet and accounts together with a copy of the auditors' report and a report of the working of the Development Bank during the relevant year, and the Development Bank shall cause to be published in the Official Gazette copies of the said balance-sheet, accounts and reports.

(6) Without prejudice to anything contained in the preceding sub-sections, the Central Government may at any time appoint the Comptroller and Auditor-General of India to examine and report upon the accounts of the Development Bank and any expenditure incurred by him in connection with such examination and report shall be payable by the Development Bank to the Comptroller and Auditor-General of India.

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

186. Once at least in every year the accounts of the Company shall be balanced and audited and the correctness of the Profit and Loss Account and Balance Sheet ascertained by one or more Auditor or Auditors.

187. The Company at each General Meeting shall appoint an Auditor or Auditors being a Chartered Accountant or Accountants to hold office until the next Annual General Meeting.

189. Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and Officers of the Company such information and explanations as may be necessary for the performance of the duties of the Auditors and the Auditors shall make a report to the shareholders on the accounts examined by them, and on every Balance Sheet and Profit and Loss Account and every other document declared by the Act to be part of or annexed to the Balance Sheet or Profit and Loss Account which are laid before the Company in General Meeting during their tenure of office and the report shall state whether in their opinion and to the best of their information and according to the explanations given to them the said Accounts give the information required by the Act in the manner so required and give a true and fair view: (i) in the case of the Balance Sheet of the state of the Company's affairs as at the end of its financial year and (ii) in the case of the Profit and Loss Account, of the profit or loss for its financial year. The Auditor's Report shall also state :—(a) whether they had obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purpose of their audit; (b) whether, in their opinion, proper books of account as required by law have been kept by the Company so far as it appears from the examination of those books and proper Returns adequate for the purpose of their audit have been received from the branches not visited by them; and (c) whether the Company's Balance Sheet and Profit and Loss Account dealt with by the Report are in agreement with

the books of account and Returns; where any of the matters referred to in items (i) and (ii) or (a), (b) and (c) aforesaid is answered in the negative or with a qualification the Auditor's Report shall state the reason for the same. The Auditors' Report shall be attached to the Balance Sheet and Profit and Loss Account or set out at the foot thereof and such Report shall be read before the Company in General Meeting and shall be open to inspection by any Member of the Company.

INDUSTRIAL DEVELOPMENT CORPORATION OF NEPAL

27.(1) The affairs of the Corporation shall be audited by an auditor possessing qualifications recognized by His Majesty's Government. The auditor shall be elected by the General Meeting of the shareholders to serve for a period of one year.

(4) The auditor shall make a report to the shareholders upon the annual balance sheet and accounts.

(6) His Majesty's Government may at any time issue direction to the auditor requiring him to report to it upon the adequacy of measures taken by the Corporation for the protection of its shareholders and creditors or upon the sufficiency, etc. of their procedure in auditing the affairs of the Corporation and may enlarge or extend the scope of the audit or direct that a different procedure in audit be adopted, or direct that any other examination be made by the auditors, if in its opinion public interest so requires.

DEVELOPMENT BANK OF INDONESIA

15.(1) The Financial Control Board (Badan Pemeriksa Keuangan) is authorized to keep a control on the general administration and management of the Bank. The findings of said control are reported to the Development Council as well.

(2) The State Auditing Service (Djawatan Akuntan Negara) is charged with the control on the administration and management exercised by the Managing Board.

16.(2) The Bank balance sheet and profit and loss account

are drawn up by the Managing Board and submitted to the Development Board.

(3) The Development Board provisionally confirms these annual statements with the assistance of the State Auditing Service.

(4) These provisional balance sheets and profit and loss accounts are thereupon submitted to the Government by the Development Board.

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